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PROVINCE OF SASKATCHEWAN

IN THE MATTER of an Application by the Railway Association of Canada dated October 9,1946, for a General Thirty per cent. Increase in Freight Rates

Brief of Argument of the Province of Saskatchewan in Opposing the Application before The Board of Transport Commissioners for Canada

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FOREWORD

On October 9, 1946, the Railway Association of Canada, on behalf of its members, made application to the Board of Transport Commissioners for permission to make a general thirty per cent. increase in freight rates. The Government of Saskatchewan resolved that no time should be lost in opposing the application and that the implications were so serious for the people of the Province that no effort should be spared in the preparation of a defence. I had the honour to be selected as the member of the Government primarily responsible for opposing the application and it is my purpose in writing this foreword to express my earnest thanks to those who have assisted me.

One of the first steps taken was the appointment of a Technical Committee for the purpose of analyzing the situation and assembling the necessary material. This Committee was composed of members of the Public Service of the Province and staff members of the University of Saskatchewan. The following were associated with me on the Committee: Dr. G. E. Britnell, Chairman; Mr. B. N. Arnason; Dean F. C. Cronkite, K.C.; Dr. V. C. Fowke; Mr. C. F. Prevey; and Mr. George Oliver, who has acted as secretary.

It soon became apparent that the people of the Province were not only interested in the application but that they were greatly alarmed. In consequence on October 28, 1946, on behalf of the Government, I called a conference of representatives of producer, consumer and business interests. A thorough discussion took place and it was resolved that an Advisory Committee should be appointed. The function of this Committee was to act in an advisory capacity to the Technical Committee.

The Advisory Committee, broadly representative of the major business interests and groups that would be affected by any increase in freight rates, was composed of the following persons: B. N. Arnason, Regina, Deputy Minister of Co-operation and Co-operative Development, Chairman; J. S. Woodward, Saskatoon, President, Saskatchewan Associated Boards of Trade; Alex. Aitken, Regina, Secretary, Saskatchewan Associated Boards of Trade; L. A. Blackwood, Moose Jaw, Moose Jaw Board of Trade; George W. Robertson, Regina, Secretary, Saskatchewan Co-operative Producers Limited; J. H. Wesson, Regina, President, Saskatchewan Co-operative Producers Limited; R. E. Motherwell, Regina, Saskatchewan Co-operative Producers Limited; G. R. Bickerton, Saskatoon, Research and Publicity Director, United Farmers of Canada (Saskatchewan Section); S. E. Leavitt, Regina,

Chairman, Saskatchewan Branch, Canadian Manufacturers' Association; E. B. Smith, Yorkton, President, Saskatchewan Retail Merchants' Association; Reg. Carter, Regina, Retail Merchants' Association; J. S. Turnbull, Regina, Director, Saskatchewan Dairy Association; George Urwin, Saskatoon, President, Saskatchewan Federated Co-operatives Limited; S. J. Tabbutt, Prince Albert, Chairman, Saskatchewan Executive Committee, Trades and Labor Congress of Canada; Mrs. J. E. Cooper, Regina, President, Local Council of Women.

At the Hearings before the Board, the Province has been represented by M. A. MacPherson, K.C., who was retained as counsel by the Government. The services of Millar, Macdonald and Company, Chartered Accountants of Winnipeg, were engaged to analyze financial problems involved in the application. Dr. A. W. Currie of the University of Toronto was engaged as Transportation Economist.

The Board has heard evidence for 122 days. Special mention should be made of the Hearings in Regina last summer on June 9, 10, 11 and 12. Prior to these Hearings many groups, organizations and companies notified the Government of their intention to file Briefs and to appear before the Board. The services of counsel were made available to these witnesses. The following appeared before the Board usually represented by a senior official: Bowman Bros. Limited; Horse Co-operative Marketing Association Limited; Intercontinental Packers Limited; Local Council of Women (Regina); Retail Merchants' Association of Canada (Sask.); Saskatchewan Associated Boards of Trade; Saskatchewan Coal Mine Operators; Saskatchewan Co-operative Producers Limited; Saskatchewan Dairy Association; Saskatchewan Federated Co-operatives Limited; Saskatchewan Federation of Labour (C.C.L.) (Brief filed); Saskatchewan Forage Crop Growers' Co-operative Marketing Association Limited; Saskatchewan Homemakers' Clubs; Saskatchewan Honey Producers Co-operative Marketing Association Limited; Saskatchewan Motor Dealers' Association; Saskatchewan Poultry Board; Saskatchewan Stock Growers' Association; Saskatoon Wholesalers' Association; United Farmers of Canada, (Saskatchewan Section); Wholesale Committee of the Regina Chamber of Commerce.

I believe that the decision of the Board to hold Regional Hearings has been amply justified by the results. At Regina first-hand evidence was given regarding the economy of Saskatchewan and the probable effect of an increase in freight rates thereon. The witnesses who appeared are to be commended for their public interest.

The Brief appearing herewith represents the case of the Province against the proposed freight rate increase. The Government assumes responsibility for the arguments advanced but the preparation of the Submission has been almost entirely the work of the Technical Committee. It is the belief of the Government that this Submission points in unmistakable terms to the conclusion that the increase applied for is unwarranted and would constitute a gross injustice to the people of Saskatchewan.

On behalf of the Government of Saskatchewan I wish to take this opportunity of thanking publicly the members of the Advisory and Technical Committees, the organizations and their officers who appeared at the Regional Hearings, counsel, accountants and economists who have given valuable assistance, and the countless others who have given valuable suggestions and who have shown by their interest that this is the fight of the people. I should like also to record with pleasure that co-operation among the seven provinces opposing the application has been excellent. In particular Saskatchewan and Manitoba have been able to make common cause on most issues.

To this I would add my personal thanks. Although the responsibility of carrying the fight against this application has been a heavy one, the enthusiastic and intelligent co-operation of so many citizens of the Province has made the task pleasant. To all of them I express my grateful appreciation.

L. F. McIntosh,

Minister of Co-operation and Co-operative Development.

PROVINCE OF SASKATCHEWAN

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BRIEF of Argument of the Province of Saskatchewan in Opposing the Application before The Board of Transport Commissioners for Canada.

PART I

INTRODUCTION

On October 9, 1946, the Railway Association of Canada on behalf of its member companies, made application for authority to make a general advance of thirty per cent. in the tolls or rates at present charged by them in respect of all freight traffic carried on their lines in Canada (with a minor variation in the case of coal and coke) insofar as such tolls or rates are within the jurisdiction of the Board. The application also asked for authority to increase the charges for collateral services such as switching, protective service, crane service, etc., by the same percentage rate.

The Government of Saskatchewan took a very serious view of this application from the beginning and resolved to oppose it on behalf of the people of the province. It was soon apparent that there was a general feeling of apprehension on the part of those who would be affected by the proposed increase and many representations were made to the government urging that the application, or any application seeking any increase, should be vigorously opposed. An Advisory Committee, broadly representative of the various groups and occupations in the province, has given valuable assistance to the government in the preparation of its case.

The implications of the application are most alarming to the people of this province. That a 30 per cent. increase in freight rates must mean a substantial advance in the cost of living seems evident but attention must also be paid to the fact that the granting of the application would impose an extremely heavy burden on the economy of this province. Present freight rates are higher in Western than in Eastern Canada and as a result of geography Saskatchewan probably stands at the apex of the freight rate structure of Canada. Moreover, due to the fact that Saskatchewan is predominantly an exporter of primary products with a relatively undeveloped manufacturing economy, the volume of both outgoing and incoming freight traffic is unusually large in relation to the total production of the province. These factors indicate that the freight rate burden is already a heavy one and it will be argued that a horizontal increase will be particularly prejudicial to this province.

It will be argued that the accounts of the railways together with a reasonable anticipation of increased traffic and also savings resulting from technical improvements, indicate no need of any advance in freight rates at the present time. The need of increased revenues through an advance in freight rates should be clear and unmistakable in view of the undoubted disruptive tendency of such action.

Should the need of increased revenues from freight traffic be made out it will be argued that in no event should any advance be permitted which will increase the present burden on the Province of Saskatchewan. The contention that this is a purely financial case and that regional inequalities cannot be considered under this application will not be conceded for a moment. Under the provisions of the Railway Act freight tariffs must not be unjust or unreasonable and the prejudicial effect of an increase on the economy of this province is clearly relevant under the present application. Accordingly a considered argument will be advanced involving the contention that rates are already unjustly high in this province and also pointing out the peculiar position of this province in the economy of Canada with special attention to certain national policies as they affect this region. The conclusion will be reached that not only should no increase be made effective in this province but that on the basis of justice and reasonableness present rates should be reduced.

The argument as outlined in this Brief and as amplified before the Board will be confined almost entirely to the position of the Canadian Pacific Railway. It will be argued that on account of the peculiar capital structure of the Canadian National Railways, which is the other principal freight carrier, and for other reasons, the position of that railway is hardly relevant to the present inquiry. No particular mention will be made of the application dated December 12, 1946, for increases in certain express rates. Advances in express rates are equally as objectionable and burdensome as increases in freight rates.

PART II

EVERY EFFORT SHOULD BE MADE TO AVOID A MEASURE WHICH MUST ACT WITH DISRUPTIVE FORCE ON THE STRUCTURE OF THE CANADIAN ECONOMY.

There is a natural tendency to deal with the railways' request for increased rates solely in terms of the railways' financial requirements. The first question is: Do the railways need the money, or any part of it? It is a considerable step beyond this restricted approach to raise questions concerning the effects of increased rates upon particular groups of producers and consumers and upon particular areas. Yet this step has been taken and has been accepted as reasonable. In fact the existence of governmental control over freight rates is based on the premise that railways are so affected with the public interest that any of their major acts may reasonably be subject to review by public authority. Consequently it is proper to raise for examination not only the effects of increased rates upon particular groups of producers and consumers, but also the possible adverse consequences of such increases upon the economy as a whole. These effects are related to fiscal policies, to price levels and changes in price levels, to inflation and deflation, and to all fluctuations in business activity ordinarily associated with the business cycle.

So prominent are the railways in the economic life of the country, and so substantial is the increase in rates now sought, that the effects of granting the request are bound to make for major disturbances of price level relationships. Whether the effects would work out in a sharp stimulus to further inflation or whether they would precipitate or accelerate a deflationary spiral of prices would depend upon the stage of the cyclical processes at the time when the freight rate increases were made effective. The inflationary trends of recent months persist without sign of immediate abatement. If any substantial proportion of the factors in our economic life, including particularly perhaps the psychological one, continue to favour price-level increases, a thirty per cent. jump in freight rates will support and intensify the effect of these factors. If, however, as some careful observers consider probable, the force of the inflationary elements in the Canadian economy is being dissipated in what may well be a final burst of energy, a thirty per cent. increase in freight rates would act in a deflationary manner and might in fact provide a shock sufficient to institute and prolong an economic recession of considerable severity. There is little doubt that the drastic increases in freight rates allowed as of September 13, 1920, in the Forty per cent. Case, aggravated the recession which had already been established at that time. The deflationary aspects of the question will be dealt with below.

As long as underlying conditions in Canada favour inflation any substantial increase in freight rates would tend to raise price levels still further for a number of reasons. First, retail prices would tend to rise by more than the amount of the increase in freight charges, because each distributor calculates his mark-up on the basis of the laid-down

cost of the commodity to him. Second, and of vastly greater importance today than a generation ago, is the fact that an increase in railway freight rates would permit an increase in the rates of competitive carriers, notably trucks. The pyramiding process applies to distributors' cost and mark-up calculations no matter what carrier moves the goods. Third, experience shows that in an inflationary situation there is not likely to be any condition of ultimate balance between wages and employer earnings. If higher wages support the argument for higher railway rates and earnings, higher railway rates and earnings in turn will support the demand for further wage advances.

The spiral process is familiar to all. The prominent position which the railways occupy in Canadian economic life makes it inevitable that any major upward revision of railway rates under the permission of the Canadian Board of Transport Commissioners would be interpreted by the business community as representing governmental sanction for further price advances in every segment of the Canadian economy. It is axiomatic that the powers of the central bank and the taxing, borrowing and spending policies of a strong government may be used to halt such a spiral. Yet the fact remains, that the exercise of such powers in themselves often initiates a recession.

Forces making for inflation in the Canadian economy at the present time are generally speaking the following: (1) the current level of public and private investment, including residential building; (2) foreign buying on credit; and (3) the current level of purchases of durable and semi-durable consumer goods. The effects of the freight rate increase on the Canadian economy cannot be considered apart from the courses taken by purchases in these markets. If these forces continue to hold up the current level of economic activity, then the proposed increase in freight rates could easily become a factor leading to a further inflationary rise in prices since it would lead in all probability to further demands for higher wages.

On the other hand, there are some reasons, connected chiefly with the world monetary crisis, for feeling that the inflationary forces are beginning to recede. The deflationary effects are connected in part with the sterling-dollar crisis and in part with regional relations of the Canadian economy. It will be pointed out that the greatest dangers lie in longer-term regional disruptions of the national economy which will not only affect the west but also the relations of Canada to the world.

The effect of the proposed increase in freight rates might easily be such as to bring a double impact upon the industrial areas of Canada. Such an impact could very easily set off a cyclical down-turn in economic activity and national money income. So long as the present food crisis in Europe lasts, current reductions in foreign demands are more likely to affect industrial than agricultural products. The imposition of higher freight rates would certainly reduce in some degree western demands for industrial goods from the east, both because of the higher laid-down costs of eastern goods in the west and because of the reduced money incomes in the west where part or all of the increased costs of transportation fall on the western sellers. Thus the industrial areas would suffer simultaneously from reduced domestic and foreign demand.

The adverse effects of an increase in freight rates would not be limited to effects on industrial production in Eastern Canada. Certainly so far as the west can get alternative sources of supply by shorter hauls from the United States there would be some tendency to turn to that market rather than to either Eastern Canada or Europe. This would have a double effect so far as imports of the west from European countries are concerned of diminishing their supplies of Canadian dollars and of raising our demand for American dollars. Surely at a time when the relation between the "hard" and "soft" currency areas of the world forms the most intractable problem in reaching a new and relatively stable adjustment in international economic relations, the adoption of a policy likely to aggravate this problem, in whatever degree, is both politically and economically inadvisable.

Deflationary effects might be offset or reduced in eastern areas if the railways actually did secure larger revenues from the rate increases. The revenues would be secured predominantly from the west and would tend to reduce money incomes in that area. The costs of maintenance and operation tend to be relatively lower in the west and the plants producing rolling stock are situated in the east. For these reasons major new expenditures by the railways would be in the east, although it is probable that increased imports of steel, etc., from the United States would reduce the aggregate of these. However, it is to be noted here that such expenditures by the railways would need to be very carefully timed. If deflationary influences on eastern industry started operating *before* the spending programme of the railways, cyclical recession could mean that even at the higher rates total freight revenues might be less than at the lower rates and higher expenditures by the railways might appear out of order.

Great as is the threat which a substantial increase in freight rates offers to the Canadian economy as a whole a still greater danger lies in the extreme probability of further disruptions in regional and international relationships. In the first place, to the extent that prairie incomes over a term of years have tended to be lower than the national average, an increase in freight rates will be regressive in that the burden will be borne by those least able to support it. In the second place, as will be shown at length in other parts of this submission, the proposed increase would almost inevitably be reflected in further sharp reductions in western incomes.

With respect to the regressive effects of an increase in rates, an individual, by the purchase of stocks or bonds, etc., may invest his savings anywhere in Canada or even elsewhere, but his consumption expenditures depend upon his place of habitual residence. Persons with lower incomes normally spend a larger percentage of these on consumption. The Western Canadian will be hit on one side by the increased costs of laid-down "imports" and on the other side by the reduction of western incomes.

Sharp reductions in prairie income would almost certainly result from longer-term effects of a freight rate increase on foreign demand for western products. As the other food-growing areas of the world approach full production, demand for Canadian food exports will grow more and more elastic. An element of higher laid-down costs in the foreign markets, resulting from higher transportation costs, could be a factor greatly

reducing our exports of livestock and other agricultural products. Even though freight rates on wheat exports may not rise, nevertheless wheat exports may be materially reduced, since our ability to deliver wheat in Europe on a price basis which meets the competition of other wheat-growing areas will be impaired by higher costs of production. If we should lose these avenues of export for the west, it would mean the virtual destruction of the economy of the Prairie Provinces for a long time to come.

Such an event would have repercussions far beyond the borders of the region immediately affected. The world today appears to be dividing itself into two armed camps. The peace of the world may very well rest for some time upon the abilities of a number of nations to resist being drawn fully into the orbit of either of the great adversaries. Canada's ability to maintain ties outside the western hemisphere may depend fundamentally upon her ability to maintain strong economic ties with the countries of Western Europe and elsewhere. In the maintenance of such ties nothing may be more important than the ability to lay down agricultural products in the great food-importing countries at prices which will maintain these markets for Canada. Transportation costs are already a serious obstacle in reducing laid-down costs. To increase these costs at a time when the purchasing ability of our customers has been impaired by a great world war would appear to be suicidal.

Regional discrimination in freight rates is a monopolistic policy which throws the burdens of railway obsolescence upon the areas where the competition of other carriers is unimportant. To permit a public utility to use such a method under current Canadian conditions appears to be not only ethically indefensible so far as the human rights of citizens of the Prairie Provinces are concerned but from the standpoint of the nation's interests in a troubled world, it would appear to be politically and morally foolish.

PART III

THE CANADIAN PACIFIC RAILWAY HAS SHOWN NO NEED OF INCREASED REVENUES THROUGH HIGHER FREIGHT RATES

In supporting their application for a general increase in freight rates the railways have insisted that the case is entirely a financial one, that is whether the railways require additional funds in order that proper transportation facilities may be provided and a reasonable return be available for investors. In the view of the Province this position is untenable but it is nevertheless readily conceded that the fiscal position of the railways is entirely relevant to the inquiry. In other words while there are many other factors in the economic and social life of Canada that must be considered before higher freight rates are made effective, still it is of prime importance that sufficient funds be available to the railways for the provision of adequate transportation facilities. It will further be assumed that a reasonable return should be paid on the capital stock of a railway company.

While other factors will be dealt with later in the argument it is proposed at this stage to meet the railways on their own ground and treat the case as a fiscal one. As has been explained in Part I this means that the contention of the Canadian Pacific Railway will be dealt with since the fiscal position of the Canadian National Railways in relation to freight rates is entirely unreal. And in this regard it may be stated that the claim of the Canadian Pacific Railway is specific.

The method adopted by the Canadian Pacific Railway was to estimate the total costs of the system for the year 1947 on the assumption that a certain volume of traffic would be carried and the physical plant of the system maintained at a desired level of efficiency. As against this the income to be derived from carrying the anticipated volume of traffic at existing rates was calculated.

Exhibit 22 shows that the "requirements" of the C.P.R. for 1947 including taxes on income total some $58 millions against which only some $18 millions of net railway earnings is shown as available, leaving a claimed shortage of some $40 millions.

The Province categorically denies this contention of the Canadian Pacific Railway. It will be argued that the Company has both underestimated income and overestimated expenditures. It will be argued further that in several particulars the claims of the Railway are completely untenable. The argument will be presented under the following six heads: (a) That the Canadian Pacific has presented a pessimistic estimate of freight revenue for 1947; (b) That the Canadian Pacific has failed to include savings from technical improvements which should substantially reduce expenditures; (c) That the Canadian Pacific has improperly calculated depreciation on all railway assets currently in use; (d) That the Canadian Pacific should include revenues of the Company other than those arising strictly from the provision of transportation services; (e) That the Canadian Pacific

return on investment should be strictly limited to the capital stock of the Company; (f) That the Canadian Pacific can effect further economies through co-operation with other railways.

(a) Estimates were presented to the Board early in the inquiry by the Freight Traffic Manager of the Canadian Pacific Railway Company on freight traffic revenues for 1947 and by other officers of the Company on passenger and other railway operating revenues. A tendency to underestimate freight revenues was revealed and this has been borne out as information on actual revenues realized during the present year has become available.

In late October and early November of last year the Freight Traffic Manager estimated freight earnings for 1946 at $215,514,000 based on actual known revenues of $178,431,000 for the first 10 months and an estimate of $37,083,000 for the months of November and December, (Exhibits 2 and 15). Actual freight earnings for 1946 proved to be $218,551,000, revealing an underestimate of $3,037,000, (Exhibit 18). The witness suggested this was an error of 1.4 per cent. (p. 1118 of the record) but inasmuch as the entire underestimate was made on the last two months of 1946 the error was $3,037,000 on the actual revenue of $40,120,000 or 7.6 per cent.

Exhibit 19 was introduced to show how good an estimator the Freight Traffic Manager was. This exhibit reveals many inconsistencies in estimating but the tendency to underestimate by substantial sums is quite apparent (Table I).

TABLE I

Estimates of C.P.R. Freight Revenues Made by Freight Traffic Manager, Compared With Actual Revenues (Exhibits Nos. 18 & 19).

Year	Month Estimate Made	Estimated Revenue	Actual Revenue	Estimate Over (O) or Under (U) Actual Results
1946	Oct.-Nov. 1946	$ 215,514,000	$ 218,551,000	$ 3,037,000(U)
1945	July, 1945	228,517,073	227,707,486	809,587(O)
1944	August, 1944	235,711,147	233,118,473	2,592,674(O)
1943	September, 1943	212,825,547	217,943,039	5,117,492(U)
1942	October, 1942	195,418,720	195,897,780	479,060(U)
1941	September, 1941	170,589,916	177,401,114	6,811,198(U)
1940	September, 1940	134,427,798	135,831,653	1,403,855(U)
1939	September, 1939	120,388,556	120,338,068	50,488(O)
1938	September, 1938	110,820,055	110,327,509	492,546(O)

Results varied all the way from an overestimate of $2,592,674 to an underestimate of $6,811,198. The average overestimate (four years) was $986,000 but where underestimates occurred (five years) the average was $3,370,000. Thus we see the greater tendency to be conservative in freight revenue estimates and the very substantially greater magnitude of such underestimates. It should be noted that in all cases the estimates were made late in the year.

The Freight Traffic Manager stated, at page 928, transcript of evidence:

> "During the years 1940 to 1943 it was much more difficult to make estimates because traffic was increasing more rapidly than we anticipated it would."

Surely the art of forecasting is to judge accurately the degree of change in traffic trends, and whether traffic is increasing, declining or maintaining a uniform level, deviations from actual results nevertheless reflect the extent of failure in judgment. Since accuracy to the last dollar is not expected it is not the intention here unduly to criticize the Freight Traffic Manager for his errors in forecasting but rather to emphasize that significant inaccuracies appear to be inherent in forecasts of this nature. From the standpoint of the normal requirements of the Company for information it is probably well for revenue estimates to err on the conservative side but it is strongly suggested that, in view of the record, it would be unwise to place much weight on the 1947 C.P.R. freight traffic forecasts in deciding the issue now before the Board.

It must be borne in mind that at no time in the past has an estimate been attempted for a whole year in advance. If we accept the explanation of the Freight Traffic Manager that the large errors in the war years were due to an abnormal upward trend, we are entitled to assume that the error in the 1947 estimate would more likely be in the order of that revealed in the last two months of 1946. This was as indicated, 7.6 per cent. If this is an acceptable measure of the degree of error which may be expected in 1947 it suggests that the freight earnings estimated at $223,500,000 (Exhibit 22), may actually prove to be $240,500,000 or $17,000,000, greater than estimated. There is evidence that suggests this is more likely to be realized than the estimates made by the C.P.R.

The possibility of revenue being above that estimated by the Freight Traffic Manager was discounted because, he argued, shortage of equipment, lower average loadings and change in the length of haul and character of traffic would preclude the company from earning any more revenue than his estimate showed and indeed he had reduced some of the estimates of his traffic officers on this account.

Data are now available to show actual results for the first eight months of 1947 in comparison to the same period in 1946. Freight earnings up to and including August, 1947 totalled $158,629,401 compared to $136,428,161 in the same period of 1946 (Exhibit 393), an increase of over $22,000,000 in the first eight months, compared to an estimated increase of only $5,000,000 for the full year. There is no reason to expect a sudden falling off of traffic in the last four months and it would appear that the well defined tendency of the Freight Traffic Manager to underestimate freight revenue by substantial sums will again be manifest when the actual results for the full year 1947 are available.

The record for the first eight months of 1947 is particularly enlightening in view of the very definite evidence given by the Freight Traffic Manager that his estimate could not be exceeded because of the limiting factor of equipment shortage.

No doubt car shortages can be a limiting factor but the evidence of actual performance to date shows that such limitations are of an extremely elastic nature and suggests that so far the true limits have not been reached.

Mr. R. E. Moffat, Economic Adviser to the Manitoba Government, made a study of the relationship which has existed in the past between tonnages carried by the railways and freight revenue therefrom (Exhibit 328). He also made an exhaustive survey of tonnages of all commodities available for carriage in 1947, (Exhibit 327). Coupling the results of the two exhibits, Mr. Moffat estimated possible C.P.R. freight earnings for 1947 at $249.7 millions. This was attacked on the ground that the Company could not supply cars to carry the traffic necessary to produce such revenue and filed Exhibit 330 in support of their contention. Certain corrections were made in the exhibit by Mr. Moffat in the light of which he, reaffirming his first contention that the traffic was available, gave as his considered opinion that the C.P.R. could and would carry the additional traffic and realize his estimate of freight earnings of $249.7 millions.

In view of the record of underestimating by the Canadian Pacific, the well supported evidence of greater freight earnings presented by Mr. Moffat and actual results for the first eight months of 1947, there seems little doubt that freight revenues in 1947 will exceed the estimates furnished to the Board by the Company.

The railways have emphasized increased costs of operation and declining net revenues. It is admitted that railway operating expenses have risen. This is shown in the case of the Canadian Pacific by Exhibit 393. While it is true total railway operating expenses rose from $167,392,300 for the first eight months of 1946 to $184,868,673 in the same period of 1947 the net railway operating income declined only from $10,171,861 to $9,642,491. The net position deserves a close scrutiny for it will be noted that the 1947 expense figure includes railway tax accruals of $10,-644,649 in the first eight month period whereas the total for the year 1947 was estimated at $7,000,000 (Exhibit 22). This striking increase in the provision for tax accruals indicates either much greater anticipated revenues for 1947 than originally estimated by the C.P.R. or an excessive charge against the revenue of the first eight months with a consequent understatement of the net income position.

(b) In few other fields have technological improvements been more marked during the past twenty years than in railroading. Important advances have been made both in road and rolling stock and in technical aids to operation.

Marked improvements have been introduced into the manufacture of rails and in methods of track fastening according to *Factors in Railway and Steamship Operation*, a book assembled and edited by the General Publicity Department of the C.P.R. in 1937. At page 72 the following appears:

> "The processes of manufacture have been materially improved. The original Acid Bessemer process of steel making has given way to the Basic Open

Hearth process, generally believed to make, with the available ores in this country, the best steel possible. Heavier sections of rail have helped the heavier wheel loads, made smoother riding track, and kept down the cost of maintenance. More efficient rail sections have reduced the number of certain types of rail failures, and stronger track has permitted the running of heavier and faster trains with fewer track failures than with the former lighter loads, lesser traffic, and lower speeds.

"At first when rail was purchased so little was known about its manufacture that about all the railway specified was the section weight and length of rails, leaving the rest to the manufacturer. But to-day when an order for rails is to be placed, and before prices are quoted by the steel mills, specifications are furnished to the mill covering generally the process, and in great detail the chemical composition, section, weight, and length required, the various classifications as to quality and short length, and the tests of different kinds which the finished rail must stand, as well as the tolerance from exact dimensions which will be allowed."

and at pages 74-75:

"Rail failures are the subject of constant care, and continual effort is made to overcome them. Volumes could be written on this subject, but one or two samples of rail failures and how they have been or are being overcome will suffice. While the A.S.C.E. 80 pound section was our standard, a very prevalent type of failure was the "moon shaped break." The base would split lengthwise of the rail at or within about a quarter-inch of its centre, open up from 2 to 8 or 10 inches, and then break or tear off outwards to the edge of the flange. When the 85 pound C.P.R. section was adopted, a slight change in design was made, giving a better distribution of the metal in the section. This made its formation easier to obtain in the rolls, eliminated the seams or laps in the base which were the initial cause of this type of failure, enabled the rail to cool more evenly on the hot bed, requiring less cold straightening at the gag presses, and so cut down the moon-shaped type of base failure that it virtually disappeared."

A modern 131-lb. rail is less than four times the weight of the 35-lb. rail rolled in 1880, but has eight times the strength. Moreover, the ends of the rail where wear is most likely to occur are frequently hardened by heat treatment.

In *Factors in Railway and Steamship Operation,* the work referred to above, the following appears at page 76:

"The joint has always been the weakest point in the track and the greatest source of track trouble. Hence the continuous effort to improve it and to lessen the number of joints. The old 56 pound rail was laid with fish plates and the ends of the rail slotted to permit of spikes being driven through these slots to hold the rail from creeping, the joint coming on a tie and being known

as a supported joint. But one tie per rail length had not sufficient holding power and the joint tie soon crept off its hard bed on to the softer ballast, the joint became low, the rail battered, the track was rough, and passing trucks assumed a grasshopper movement from joint to joint. To remedy this, angle bars succeeded fish plates, and these, having slots near their ends, permitted the use of two ties for anchorage and formed the suspended joint. Some roads adopted long angle bars and a three-tie joint. The C.P.R. used this type on its 72 pound rail, but even this was not sufficient to prevent rail creep and consequent low joints.

"Concurrently with these changes, the staggering of joints came into vogue, the joints in one line of rail being made to come as nearly as might be opposite the centres of rails in the opposite line, but this, while curing the grasshopper effect, did not help materially the battering of rails and brought one other serious trouble. The rail creep caused low joints, and trucks hitting these with a solid rail opposite gave a sort of lurch which had a horizontal component in it that became aggravated in winter when the track was frozen solid, and all too frequently caused spike heads to shear, track to spread, and consequent disaster.

"These troubles led to the use of rail anchors, which helped to prevent low joints, being fastened to the rail near its centre in groups sufficient to anchor the rail, and of the shoulder tie plate, which helped the spikes hold the rail to gauge. The rail anchor and shoulder tie plate together cured the trouble, and to-day on main tracks equipped in this manner spread track has practically disappeared."

And from page 77 the following may be quoted:

"There are still, however, two joints every 39 feet in our track, and despite the improvements made with heavier and better rails, stronger track, and better ballast, the rail ends do still batter to some extent, and various schemes have been tried to eliminate this.

"Our method, in common with many railways, is to build up by electric welding battered rail ends, then grind them to their original form. This has greatly prolonged the life of our rail, and also of many diamonds, frogs, and switch points to which this method has been applied."

Admittedly, this improvement in quality cannot be obtained without paying for it. A modern rail may indeed cost, per ton, more than the rail of twenty years ago, but it is a better rail for the money and on the basis of units of serviceability it is a cheaper rail. The fact that a better rail costs more per ton than a poorer one may easily create the impression that rails as a whole have gone up in price, whereas from the standpoint of usefulness, they have really declined in price. There are, of course, cyclical upswings such as that which has occurred since 1941, but the contention that the price of rails has been rising over a long period of years is misleading

when one considers the service they give in carriage of passengers and freight. Moreover, it must not be overlooked that the use of rails of longer serviceability is economical because it cuts down the heavy expense of wages and interference with the movement of traffic involved in frequent relaying. All in all, the assumption that the present rails will, when worn out, be replaced by more expensive rails is not sound because (a) there may be a cyclical decline in the price of rails (b) the factor of serviceability must be considered.

The assumption of the railways in regard to steadily rising prices is not substantiated by statistics with respect to ties.

TABLE II.

Average Cost of Treated and Untreated Railway Ties, 1926 to 1945

Year	Average Cost per Tie Treated	Average Cost per Tie Untreated
1926	$1.54	71.7c
1927	1.44	67.9
1928	1.40	70.4
1929	1.36	70.4
1930	1.44	70.4
1931	1.38	69.7
1932	1.36	63.4
1933	1.35	56.8
1934	1.28	49.6
1935	1.22	52.5
1936	1.17	54.2
1937	1.21	55.9
1938	1.24	58.1
1939	1.25	58.0
1940	1.27	60.0
1941	1.31	63.0
1942	1.36	70.0
1943	1.44	88.0
1944	1.73	$1.06
1945	1.84	$1.26

SOURCE: *Statistics of Steam Railways of Canada,* Dominion Bureau of Statistics.

There are, of course, cyclical variations, but the general trend is not steadily upward. As in the case of the rails, the life of the tie is extended by technological developments, such as creosoting, improved track fastenings, more rigid rails, which distribute the weight of the cars over several ties, and better counter-balancing of the locomotive driving mechansim which reduces the pounding on rails and ties. Longer life for ties reduces the labour cost per annum for their replacement. Furthermore, the technical advances have allowed the use of cheaper woods, such as larch, lodgepole pine, and jack pine, instead of more expensive hardwoods. To quote again from *Factors in Railway and Steamship Operation*, at page 83:

"A conservative estimate of the average life to be expected from our ties is 26 years. Assuming this life and using the 1937 cost of treated ties in the track, of $1.90 each, the saving due to the treated ties now in service amounts

to one and one-half million dollars per year. This saving is easily explained. The cost of the untreated ties, with 10 years' service in the track, is $1.30 each, and the cost of the treated ties, in the track, is $1.90 each. Therefore, by the expenditure of 60 cents more on the untreated ties we have increased their average life two and one half times. Since our tracks are equipped with a large number of treated ties, they are from two to three times stronger than they were when no treated ties were used. There is also a large saving in labour due to fewer renewals required per mile, less surfacing, lining, and gauging, and fewer derailments. These are indirect savings which cannot be accurately estimated, but they amount to a very appreciable sum each year."

And again at page 87 it is stated:

"If our present policy of using one and one-quarter million treated ties annually on Western Lines and practically 100 per cent. treated ties for renewals on Eastern Lines, is continued until 1944, the Company will have saved over twenty-eight million ties; equivalent to more than thirty-six million dollars at today's prices."

The annual interest on $36,000,000 at 4 per cent. is $1,440,000.

Statistics are unfortunately not available to the respondents for detailed analysis of the other materials which railways purchase. It is vigorously contended, however, that the mere quotation of price changes without considering either the more or less temporary cyclical character of those changes or the service life of the materials, gives an entirely distorted picture of the true situation and does not justify the assumption of the applicants that when equipment and way and structures presently in use are worn out they will necessarily be replaced at higher prices.

Similar technological advances have been made in rolling stock. The carriers have also assumed that the new units acquired will have no earning power beyond those at present in use. In effect, this assumption denies that there is any technological improvement in railway property. A forty-ton freight car bought in 1947 to replace a smaller one purchased in 1919 is more efficient. *Technological Trends in Transportation*, prepared by the U.S. Transportation Board of Investigation and Research and presented to the 79th Congress, 1st Session, as S. Doc. 76, 1944, states: (*passim*)

"In 1932 the committee on car construction of the American Association of Railroads approved 40 and 50 ton steel sheathed, steel frame, wood lined box cars from three to four thousand pounds lighter than previous cars of equal strength, size and capacity....Car builders are now using one-piece castings for underframes and are welding other parts. The use of high-tensile steel is expected to cut the weight by 25 per cent. There is, however, a practical limit to reductions in weight because one must consider the braking power for loaded and empty cars. Car brakes adapted to empty and loaded cars have been devised but they increase the weight of the car by 400 pounds and cost $150. Light weight is particularly important in coal, ore and wheat mov-

ing in heavy volume and loaded at the full rated capacity of the car. Non-corrosive or stainless steel has great advantages in the handling of coal, sulphur, and bauxite."

Further examples of technological improvements might be given but modern equipment is quite definitely not a mere replacement of an old unit with a new one having no greater earning capacity. The new freight car is likely to be lighter in weight, with less tare relative to pay-load, capable of moving at faster speeds, easier to load and unload, capable of standing rougher usage, with superior type brakes and with very much better draft gears. Modern locomotives have greater tractive power, are faster, are less severe on track and are much more economical of fuel and water. There is some extra expense involved in maintaining the new devices such as mechanical lubricators, feed water heaters, superheaters, automatic stokers, boosters, which are included in a modern locomotive, but these are offset—are much more than offset—by the savings already mentioned. A modern locomotive normally spends less time in car-shops and performs many more ton-miles of service between shopping than the 35-year-old locomotive which it typically replaces. The publication, *Technological Trends* previously referred to states that roller bearings almost double locomotive mileage and are often added to old locomotives. In short, the Canadian Pacific is not sound in its contention that the costly new equipment which it expects to purchase will have no earning power beyond that of the units replaced at the conclusion of their service life. It may be significant that the Canadian National scarcely mentioned this matter when arguing in favour of the freight user contributing to additions and betterments.

On the Canadian Pacific the number of freight locomotives has declined from 1,495 in 1923 to 1,352 in 1931, to 1,264 in 1938, and to 960 in 1945 according to exhibits presented. Yet the Chief of Motive Power of that railway did not feel that this decline would lead to any serious repercussions presumably because the increased speed and greater serviceability of the newer locomotives would permit a larger volume of traffic to be handled without delay and, incidentally, with reduced capital and maintenance costs.

The Canadian National Railways is particularly interested in the use of diesel locomotives. This new equipment has many advantages over the conventional steam locomotive because of its high tractive power at all rates of speed, its reduced water consumption, ease of refuelling with consequent reduction of time involved at watering and coaling (or refuelling) stations, typically higher operating speed, reduced time spent in shops, and its cleanliness. During the hearings Canadian National officials gave evidence that diesels would be used exclusively on Prince Edward Island and since that time the Canadian Pacific has announced that only diesels will be used on its lines on Vancouver Island. These adoptions in two small but important areas are the first instances of any extensive use of diesel power in Canada outside of yard service. It may be significant that in the United States diesel power is used far more extensively.

On the Canadian National in the early 1930's it was thought that 30 miles per car-day was good performance but now officials expect to get 40 miles. Since 1937 the increased capacity of freight cars on the same road is the equivalent of 3,700 cars—again with savings of capital and maintenance costs. To be sure, there has recently been some decline in the net weight of loads hauled in these larger cars but this has been the result of a change in the character of the traffic rather than lighter loading as such. Wartime regulations regarding minimum carloadings have been continued. This in itself represents a very considerable economy in railway operation.

Technological improvements are not confined to road and rolling stock but are making important savings possible in operating practices and maintenance of road and equipment. The Canadian Pacific has recently established a Research Department to co-ordinate the research activities previously carried on by individual departments and to stimulate the efforts of officials to devise new ways of reducing costs, improve operating efficiency and provide better service to the public. This Department is currently experimenting with ticket issuing machines and with devices for indicating the probable existence of hot boxes. The Company is also purchasing self-clearing hopper cars, i.e., cars in which bulk material like cement can be loaded through the roof and then, at destination, unloaded through hoppers so that the material can be removed on endless belts. These cars will eliminate packaging, reduce handling charges, and speed up delivery. The Company is also conscious that the science of metallurgy has made greater advances in the past five years than ever before in history and is planning to make use of these advances in the construction of freight cars, locomotives and power plants with the object of increasing the size, lengthening the life, and reducing the operating costs of the units concerned. The Company is using track-testing cars and mechanical track tools extensively.

Further, the installation of block signals is making operation cheaper and safer and indeed has been credited with enabling the railways to handle expeditiously the large volume of war traffic. The following extract from the *Canada Year Book* 1945 shows what has been accomplished during the war years:

> "In meeting wartime transportation requirements, Canadian railways have been operating with fewer but more powerful locomotives than in 1917 and more capacious but fewer freight cars. The Canadian National Railways reported that the vastly increased war traffic handled by them in 1943 was moved with 16.6 p. c. fewer locomotives and 15.4 p. c. fewer freight cars than in 1917. The Canadian Pacific Railway reported that 26.8 p. c. fewer locomotives and 16.6 p. c. fewer freight cars were required to handle the 1944 traffic of that company than in 1917.
>
> "The average tractive power of modern Canadian locomotives is 32 p. c. higher than that used in 1920 and the average carrying capacity of freight cars has been increased from 35.141 to 43.419 tons per car with corresponding improvements in loading methods. The speed of freight trains between terminals has been increased by 60 p. c. as compared with 1917, thus making possible a quicker turn-around of freight trains. These combined factors have increased the utilization of freight cars by 70 p. c."

The Brief filed with the Board by the Saskatchewan Federation of Labour (C.C.L.) pointed out that "As a result of these developments, the railways in 1945 were hauling a combined ton-mileage and passenger mileage of 414,000 per employee, as compared to only 236,000 in 1936." This is of the utmost significance in assessing the validity of the claims of the Railway Association of Canada for increased freight rates due to higher wages paid to employees.

Evidence is on the record in the present case that significant savings can and have been made during periods of stress in the past by taking advantage of scientific improvements. Thus, Mr. L. B. Unwin, Vice-President in Charge of Finance, Canadian Pacific Railways, at page 4017, transcript of evidence:

> Q. In speaking of the necessity of replacing equipment is not this the case, that over the period of years with the C.P.R. as with other railways there has been increased use of improved mechanical equipment, which is reducing the amount of labour required and the amount of other expenses of operation: is that so?
>
> A. That is true in the art of railroading generally. It is one of the things that enabled us to get through the depression years.

The question naturally arises that if technological aids to railroading were effective in enabling the C.P.R. to get through the depression period with its lower traffic volume should not they, with a decade of further improvements available, be equally effective today in reducing costs under conditions of heavy traffic volume. It will be strongly argued that the widespread savings in cost in every field of railroading brought about by technological improvements have not been given due weight in the Railway's estimates.

Admittedly the new equipment costs money but much of it can be purchased with equipment trust notes at very low rates of interest (2 per cent. or less). Railways, like individuals, do about what they are forced to do. Now that the need for moving war-swollen traffic is less urgent and attention can be given to peacetime technological improvements, the railways of Canada will be able to offset their increased costs in some directions by taking advantage of rapidly advancing techniques. The railways in this case, probably unconsciously, seem to have adopted the attitude that they do not need to prove that their costs are as low as they can be and still maintain efficient operation. Their attitude has been that all they need to show is that their costs are high and that therefore rates should be increased. But increased rates will drive business to their competitors. This in turn will involve higher rail costs relative to rates and presumably an application for a further increase in rates. If in the present case the Board gives an increase in rates without detailed enquiry into operating costs (which is virtually what the railways are asking for now), it will find it difficult in subsequent applications to refuse a further increase based on the same sort of incomplete evidence. If this application is granted, it will inevitably lead to progressive increases in rates and a continuous decline in the share of transportation handled by railways. Indeed it is not too much to say that the future of

the rail carriers lies in technological improvements which will reduce their costs, provide better service and improve their competitive position and not in higher rates which will in the long run drive business from the rails to highway or waterway carriers.

(c) It will be contended in argument that the Canadian Pacific Railway has made charges for depreciation which are altogether excessive. This excessive depreciation is charged against current earnings and the result, it will be argued, is that the net earnings shown for 1946 and the forecast for 1947 are far below what they should be if proper accounting were employed. The application of the Railway is based on operations for 1947 so it will be convenient to consider what a proper depreciation allowance for that year would be.

The Railway has some $650 millions of railway plant which is subject to depreciation. Of this amount $350 millions represents Rolling Stock and $300 millions is Road, or Way and Structures. The matter of Rolling Stock depreciation will first be considered.

In 1940 the Railway changed from "retirement" to "depreciation reserve" accounting thereby doubling the annual percentage of earnings chargeable against its patrons for this type of expense. It had carried on without depreciation reserve accounting for sixty years before that time.

The method of depreciation reserve accounting recommended by all authoritative bodies, including the Interstate Commerce Commission, is straight line depreciation. The Canadian Pacific adopted a system of its own called "user" depreciation, which is not utilized by any other railway in Canada, in the United States or, so far as is known, anywhere in the civilized world. The proposed charge for 1947 is considerably greater under the "user" basis than under the straight line basis and the Railway in its foundation exhibits seeks to charge $14 millions against earnings, for its own purposes and for rate making, in 1947.

The change of accounting methods introduced in 1940 is to say the least, unusual, and it has resulted in depreciation charges far in excess of such charges when calculated by the methods employed by other railways. Moreover it should be pointed out that the locomotives, freight cars and passenger cars of the Canadian Pacific were old in 1940. Replacements have been delayed during the war, which has still further increased the average age of the rolling stock in service in 1947 and their service lives are now exhausted to the extent of 75 per cent. to 85 per cent. as against a normal 50 per cent. The equipment in service in 1947 is therefore very old, and much older than on comparable American roads. Thus the charge proposed by the C.P.R. is considered excessive and the maximum allowable as a charge for rate making in 1947 is some $11 millions computed on the straight line basis prescribed by the Interstate Commerce Commission for all U.S. roads since 1914.

So much for Rolling Stock. Let us next consider the property item of $300 millions described as Road, that is Way and Structures including shop and power

plant machinery. Prior to 1942 the Canadian Pacific charged all renewals of this asset to operating in the year of renewal. In 1942 it changed its policy to depreciation reserve accounting as it did in 1940 for Rolling Stock. Here again the "user" basis was adopted.

The adoption of depreciation reserve accounting for Road at this late date in the company's history achieves no useful purpose. The Canadian National Railways does not use this method and accounting authorities support the policy of the Canadian National. It is believed that retirement accounting as now practised by the Canadian National should be adopted by the Canadian Pacific or in the alternative that it should continue with renewal accounting which it had followed for the past sixty years.

The claim of the Canadian Pacific for Road depreciation on the "user" basis for 1947 is some $7 millions. On the "retirement" basis the Canadian National estimates $1.5 millions on its Road asset in 1947 and on the same basis the Canadian Pacific should not require more than that amount. Even on the "renewal" basis the figure would not exceed $3.5 millions for the Canadian Pacific. The "straight line" basis would show some $4.5 millions.

On the combined investment in Rolling Stock and Road, the provision for amortization of service value claimed by the Canadian Pacific stands at some $21 millions. It is submitted that this amount should be disallowed by the Board and replaced by a figure of not more than $14.5 millions, consisting of some $11 millions for Rolling Stock and some $3.5 millions for Road.

The above deductions concerning depreciation will be relied on in argument. But the Province does not stop there. It is now submitted that the whole claim of the Canadian Pacific Railway for railway operating expenses, including amortization of plant values, is grossly inflated. Fortunately a convenient formula exists for putting, this matter to the test.

Professor W. T. Jackman, the eminent Canadian authority on Transportation Economics, reaches the emphatic conclusion at page 102 of his *Economic Principles of Transportation* that 45 per cent. of operating expenses will fluctuate with traffic volume and that 55 per cent. are fixed in their nature. The Canadian Pacific Railway has furnished the Board with many Exhibits setting out comparative figures, using as its base the year 1939. Wage and material costs have been shown in Exhibit 116 to be 43 per cent. above the level of 1939. Indeed this increase is the only reason advanced by the railways in either their application or in their testimony, for the proposed increase in freight rates. On the other hand, according to Exhibit 165, traffic volume in 1947 is some 60 per cent. above that of 1939.

Now applying Professor Jackman's formula to the above facts the following result appears (in millions of dollars):

Railway operating expenses 1939 (per Exhibit 336)	$121.1
Raise for increased cost levels (per Exhibit 116) 43.1%	52.2
	$173.3
Raise for increased traffic volume 1947 over 1939 60% of 45% of $173.3 million (per Jackman)	46.8
Railway operating expenses for 1939 raised to 1947 level of costs and traffic volume, before taxes on income	$220.1
Railway operating expenses for 1947 as estimated by the C.P.R., before taxes on income	267.4
Difference	$ 47.3

It will be observed from this application of Professor Jackman's formula that the 1947 patron, on the basis of the Canadian Pacific figures is being charged for operating expenses including amortization of plant values, some $47 millions in excess of the 1939 level.

Mr. W. J. Macdonald, F.C.A., the accounting adviser for the Provinces of Saskatchewan and Manitoba, dealing with maintenance of Way and Structures and of Equipment, showed a difference of some $33 millions as between 1939 and 1947 on these two types of operating expense alone. His figures were not successfully challenged by the Canadian Pacific in cross-examination or in rebuttal. The base year 1939 was not chosen by Mr. Macdonald, but by the Railway. No evidence was tendered by the Railway as to the normality of 1939 or otherwise.

It is therefore contended that the operating expenses of the Canadian Pacific for 1947, including its provisions for amortization of plant values, are over-stated by a figure of some $47 millions on the 1939 yardstick of physical maintenance.

(d) The Province will take definite issue with the Canadian Pacific Railway with respect to the basis on which prospective revenue for the year 1947 was calculated. Officials of the railway estimated that returns to the Company for the year would amount to $285,440,000 (Exhibit 22) and this figure was arrived at by adding together the anticipated returns from the various transportation services performed by the Company. In fact the total revenue accruing to the Company will be much larger for it will include dividends from investments, profits from the hotel system, etc. It will be argued on behalf of the Province that these other items of revenue should be considered when freight rates are being fixed.

In the year 1946 these so-called "other income" revenues amounted to $22,779,794 (Exhibit 143) the break-down being as follows:

Net earnings from ocean and coastal steamships	$ 4,202,264
Net earnings from hotel, communication and miscellaneous properties	2,550,862
Dividends [from Investments]	8,563,152
Net income from interest, exchange, separately operated properties and miscellaneous sources	7,463,516
Total	$ 22,779,794

It is the contention of the Railway that in fixing just and equitable freight rates only revenues deriving from transportation services proper, should be considered. In other words that the transportation service should pay its own way. From this proposition the Province definitely dissents, especially when the history and activities of the Canadian Pacific are considered.

In general the enterprises producing these additional revenues were procured either by gift or through the investment of company funds. In the former category would fall a large proportion of the Company's land holdings in Western Canada. These lands were a direct gift by Canada to the Railway. To argue that income derived from these lands (or assets derived from the sale of lands), in essence a gift by the people to the Railway, should not be considered when rates are being fixed that the people shall pay for transportation of their goods, is a proposition so ridiculous as to be almost insulting.

As to income arising from collateral investments, the Canadian Pacific hotels and the large holdings of stock in Consolidated Smelters might be considered as examples. In the case of hotels it may well be argued that the operation of these ventures has become a necessary part of the railway transportation business. Certainly both in Canada and the United States the operation of hotels by railways has become a common practice and it is significant that within the past few months the Canadian Pacific Railway has argued before courts of law in two provinces that legislation touching the operation of railway hotels is railway legislation. As to the investment in the capital stock of Consolidated Smelters it may also be argued that the investment was made for the purpose of facilitating the control of the freight traffic to and from the very productive property of this mining company.

Whether these activities are direct or collateral, whether they represent transportation activities or not, would, however, in the opinion of this Province make little difference. Either they are transportation activities or they are not. If they are, then certainly there can be no argument that profits resulting therefrom should not be included in the revenues of the transportation system for the purpose of rate-making. If they are not then they are improper investments for a public transportation utility to have made and should be

liquidated and the proceeds used to lighten the burden of the people of Canada who pay for transportation services. Certainly these investments were made from funds which were accumulated from freight and passenger tolls, and if the investments were unnecessarily made then the rates which produced those funds were too high and were neither just nor equitable. The Railway should not be heard to argue that revenue deriving from these investments is not properly railway revenue.

The claim of the Railway that the so-called other income should not be considered as railway revenue is simply unbelievable when certain other practices are considered. For instance, income tax is paid on the entire earnings of the Company yet the practice seems to be to consider this as an expense to be paid from transportation earnings. Likewise interest charges on bonds or other loans, regardless of the purpose of the loans, are a charge against transportation earnings. In view of the claim made by the Railway these practices, it is submitted, are little short of astounding.

It may be expected that the amount of this other income in 1947 will exceed the very substantial figure of the previous year. Room rates and other charges in hotels have been increased and most of the ventures into which this Railway has bought are enjoying prosperity. The revenues that may reasonably be anticipated from these other ventures will go far to reduce the deficit prophesied by Railway officials for 1947.

With reference to the hotels and perhaps some other ventures there is this further consideration—that in the event of a loss instead of a profit there can be little doubt who will bear the loss. The hotels will be close to the transportation system then. And with reference to this whole question it must be kept in mind that the Canadian Pacific Railway has enjoyed unusual privileges in the past and is still protected in a semi-monopolistic position under the provision of the Railway Act. The position of the people who pay the tolls cannot be ignored in the case of large public utilities enjoying such privileges.

(e) It seems to have been established in the transport decisions that a railway is entitled to charge rates that will yield a reasonable return so long as those rates are otherwise just and equitable. To this principle no objection is being taken especially since it is generally conceded everywhere that the financial transactions of a semi-monopolistic public utility should be strictly scrutinized. Grave objection will be taken, however, to the investment return claimed by the Canadian Pacific Railway.

This Railway has put forward the claim that its assets have a value of $1,305,485,033 (Exhibit 13) and that it is entitled to charge tolls that will yield net earnings of $39,790,000 in 1947 (Exhibit 22)—or an estimated yield of 3.05 per cent. (Exhibit 115)—on this sum. Against this claim the Province will definitely protest. In the first place it will be denied that the assets of the Company have any such value. Evidence has already been given before the Board that these assets should more properly be valued at about $750,000,000 and this evidence will be relied on in argument.

It is here contended, however, that the value of the railway assets of the Canadian Pacific Railway is irrelevant to the question as to what rates should be charged or what

return should be allowed to investors. The position will be taken that investment return should be strictly confined to a reasonable return on the capital stock of the Company amounting to $335,000,000. This proposition assumes that interest at the contractual rate will be paid on all loans, whether in the form of bond issues or otherwise, as an item in the annual operating cost of the Railway.

It is submitted that profits of a company are usually estimated as percentage returns to the holders of common stock. A strong argument should be required to justify a departure from this practice, but considerations surrounding the expansion of a public utility such as the Canadian Pacific Railway seem to point to a restriction of the profits as indicated above.

A public utility of this type should, it is submitted, be operated with the object of supplying proper and efficient transportation services to the people of Canada and as an incident thereto it is conceded that investors should be allowed a reasonable return on the money invested. Expansion of assets should be permitted insofar as such expansion is justified for the purpose of supplying proper transportation services, but no further.

It is significant that in the case of the Canadian Pacific Railway a claim is made that the value of the assets is several times greater than the nominal value of the capital stock, which means that to a great extent expansion has been paid for out of rates exacted from the Canadian people. As to whether this was a proper procedure no opinion is here expressed, but the proposition is reiterated that the value of these assets should have no significance when determining the proper investment return. If the matter is approached analytically it is evident that the expansion was either necessary as a matter of supplying transportation needs or it was not, or part of the expansion may have been essential and part of it unessential. If the expansion was essential then the Railway was merely acting wisely in the operation of a utility and there seems to be no reason why profits should be considered apart from the position of the investor and the amount he has invested. On the other hand, if the expansion into such fields as the mining industry and the operation of hotels was unessential, then it was improper and the obvious conclusion is reached that excessive rates must have been charged at some period, rates higher than were necessary for the provision of proper transportation services. To the extent that this has happened it seems clear that not only should no return be allowed in respect of these assets, but that these assets being in essence an unnecessary reserve should be liquidated for the benefit of present users of transportation services.

The claim of the Canadian Pacific Railway inevitably involves a vicious circle of expanding assets. Insofar as the return, as claimed, is not needed for the payment of reasonable dividends on the common stock, it merely means that the assets of the Railway will be increased and on the increased assets a return will be claimed, and so on, ad infinitum. This claim put forward by the Railway simply cannot be tolerated. A railway should aim to provide good transportation services, not to become a financial colossus.

As to the proper return on the common stock, no opinion is here expressed. But it might be pointed out that if a return as high as five per cent. on the nominal value of the common stock were permitted, the fiscal need of the Railway would be considerably reduced below the claim put forward in the application.

(f) Before the Canadian Pacific Railway can establish a case for increased freight rates it must prove conclusively not only that it needs the money but that it needs the money while being operated efficiently. Moreover, efficiency should include co-operation with other railways. The application now before the Board was not made by one railway alone but by a group of railways which together have a monopoly of rail transportation in Canada. It is submitted that this group should aim to provide, and should provide efficient transportation services to the people of Canada at a minimum of cost to the users. This will involve a maximum of co-operation among the various railways and particularly between the Canadian Pacific Railway and the Canadian National Railways. To the people this is only common sense and it was the unmistakable intention of the Parliament of Canada in 1933.

The matter of the possibility of economies through co-operation has an interesting background. It should not be forgotten that from 1933 to 1939 Sir Edward Beatty, then president of the Canadian Pacific, carried on a campaign in favour of unification. Along with other officials of the Railway he contended before the Duff Commission, the Senate Committee on Railways, and in the public press that to operate the Canadian National and Canadian Pacific as one railway under one management would result in savings of about $75 millions on a 1930 traffic level. If the volume of business handled rose above normal, the savings from unification would exceed this figure. Canadian National officials opposed the scheme but Mr. S. W. Fairweather, nowvice-president in charge of economics for the Canadian National Railways, stated in evidence that in his opinion savings of roughly $56 millions would accrue from unification assuming that management was free to introduce all the economies it desired. Mr. Fairweather's figure was for the year 1930 and presumably would be higher with the current large volume of business.

The savings predicted above are probably exaggerated. Moreover, unification is clearly not an issue and reference is made to it merely as a background to an introduction of the subject of co-operation. It should also be stated emphatically that co-operation does not involve the curtailing of services such as the abandonment of branch lines serving the public. With these qualifications we believe the matter to be important although the Province is in no position to make an estimate of the potential savings involved. To put the matter bluntly, if there are no savings yet to be attained by co-operation, officials of the Canadian Pacific deceived the public when they argued so vehemently in favour of unification during the 1930's. On the other hand, if there are savings to be had from co-operation, if Canadian Pacific officers were sincere in their earlier campaign, then they must prove that they have done all that is humanly possible to obtain those savings through efficient co-operative effort before asking the shippers and the consuming public of Canada to bear an increase in freight rates.

Assuming that the question of unification is to be entirely ignored the railways have yet to explain why they have failed to carry out the terms of the Canadian National-Canadian Pacific Act of 1933. Under this legislation they were specifically ordered to economize by co-operative efforts. Prior to the outbreak of war the annual savings from co-operation were relatively small—six to seven million dollars—compared with an estimated saving of $30 millions per annum made before the Duff Commission. During the war, for obvious reasons, nothing was done to extend the scope of the economies. Since the war, according to the evidence of railway witnesses under cross-examination, nothing whatever

is being attempted in the way of expanding the work of co-operation. In short, the Canadian National and the Canadian Pacific are frankly not even trying to carry out a direct order of Parliament as contained in the Act of 1933. Until the railways prove to the satisfaction of the Board that they have done all they possibly can to cut costs, while giving complete and efficient services, until they show conclusively that they have honestly attempted to carry out existing legislation, they are not entitled to any increase.

The possibilities of cutting costs by co-operative measures were brought out in a Brief submitted by the Saskatchewan Federated Co-operatives Limited at the Regina Hearings:

> "It is the definite opinion of this organization that before railroads are granted any rate increases, they should not only prove "need", but should prove that the railroad system of Canada is being operated at its most efficient level.
>
> "To be more specific with regard to the latter point, we are of the opinion that inefficiency and waste are brought about by excessive duplication of services and wasteful competitive tactics, and we wish to elaborate to some extent on these factors.
>
> "There are approximately forty-eight competitive points in Saskatchewan, and while there are Union Stations at several points, our information is that there are only three points where there is a complete pooling of services or joint agencies in respect to the business conducted. There are only thirteen points where carload traffic is interchanged. As an illustration, let us use the small town of Tisdale, which is listed as a competitive point. The total volume of traffic handled is relatively small, but both railroads maintain full terminal facilities. The complete pooling of services at this point and the many hundreds of similar points in Canada would mean a tremendous reduction in operating expenses, and thus perhaps, eliminate the need for any rate increase. A transfer at this point would also mean a great service and saving to the people. For instance, a carload moving from Crooked River (on the C.N.R. East of Tisdale) to Rose Valley (on C.P.R. South of Tisdale) should be exchanged at Tisdale, meaning not only a saving in freight charges to the shipper or consumer, but a saving of wear and tear on equipment, as such a movement now must take place either via Melfort or Yorkton.
>
> "We are very strongly of the opinion that the Railroads should make greater efforts toward the pooling of freight and freight express services, as a means of lowering costs both to themselves and those who pay the freight.
>
> "We will quote only one more of the many hundreds of illustrations that might be cited, of the excess charges paid by the people because the railroads do not make greater efforts to get together and give the people of Canada, from whom they are asking, what we consider, an unwarranted increase in freight rates, the most efficient and economical service.
>
> "On a tank car of gasoline moving from Regina to Tisdale, the distance on which the rate is assessed is via Lanigan and Goudie, viz. 277.8 miles, at a

freight rate of 47 cents per hundred pounds. The shortest distance Regina to Tisdale is Canadian Pacific to Melfort, Canadian National to Tisdale, or a total distance of 214.5 miles. We see no reason whatsoever why the consumer is not entitled to the through rate on the combined shortest mileage, which would mean a difference of approximately 6 cents per hundred pounds."

The Province is in no position to estimate with accuracy the extent to which economies might be effected by the Canadian Pacific Railway through co-operation. It is contended most emphatically, however, that to the extent that such savings may be made to that extent the fiscal need of the Canadian Pacific Railway, if any, must be reduced. The Province will go further and express the opinion that until the Railway does put its house in order by obeying an Act of Parliament which in the past has been largely ignored, it should not be heard to assert that there is a fiscal need.

Finally it should be stated that while unification is not an issue in the case presently before the Board it may very well be an issue in the future. The spectacle of the great railway systems asking for higher freight rates and at the same time engaging in wasteful and inefficient operations will not be lost on the people of Canada who pay the piper. Public utilities should not be permitted to behave in this manner and if the railways continue to do so the people will be likely to demand unification in a complete form.

PART IV

EVEN IF THE CANADIAN PACIFIC SHOULD SHOW A NEED OF ADDITIONAL FUNDS SUCH FUNDS ARE AVAILABLE WITHOUT RECOURSE TO RATE INCREASES

It is the contention of the Province of Saskatchewan that a factual verification of the arguments outlined above will reveal clearly to the Board that the case put forward by the Canadian Pacific Railway is without merit even if it is considered on the basis of fiscal need alone. It is submitted that current revenues are ample and sufficient to guarantee the provision of efficient transportation services and a reasonable return to shareholders. Even the annual report of the Company for 1946 acknowledges net earnings of $1.53 per share of common stock after very large and doubtful sums had been deducted for depreciation. This represents a return of over six per cent. on the common stock which is an excellent return indeed when current interest rates are considered.

In Part II of this Submission reference has been made to the dangers inherent in the granting of any freight rate increases. These dangers cannot be minimized and it is submitted that the whole case for the Canadian Pacific involves a climbing upon the inflationary band-wagon. Day after day throughout the hearings counsel for the Railway have referred to the fact that others were raising their prices so why not the railways.

It is now submitted that there is no real merit to this application and that possible inflation should not furnish an excuse. It is certainly not true that the price of every article and every service has increased during the current period of rising prices or in earlier periods of high price levels. Indeed it seems to be true that in the case of most producers of goods and services where a large element of technological advance is present the price of such goods and services is not raised but is frequently reduced even though wages and the general price level may be higher. It is suggested that railway transportation is primarily an instance of this. The factual data submitted under Part III (b) above indicates an improved efficiency of labour through the use of improved equipment which should more than compensate for the higher wages paid to labour. It is further suggested that the railways through the intelligent use of improved equipment and methods may in the future reduce freight rates and thus make possible a higher standard of living for the people of Canada.

For the purpose of argument, however, it may be assumed that for a portion of the year current earnings fall short of a return deemed proper by the Board. Under such an assumption it is submitted that a disruptive increase should not be permitted. The situation may at most be only temporary and certainly many other propositions advanced by the Railway are extremely doubtful. No action which will tend to be disruptive of the economy of the nation should be taken hastily. Under such circumstances certainly no action should be taken if there is any reasonable alternative. It is suggested that there is an alternative in the use of reserves.

(a) It is not suggested that the sum of $353,791,519 shown in the report of the Canadian Pacific Railway for 1946 under the head "reserves and unadjusted credits"

should be employed to tide the enterprise over an emergency, if one exists. This amount, of course, does not necessarily represent any liquid assets. It is submitted, however, that ample liquid assets are available to meet any temporary crisis.

For present purposes it seems unnecessary to look further than the heading "current assets" appearing in the balance sheet of the Company for 1946. The total under this head is $139,681,085 and two items therein seem to be entirely clear of any corresponding liability, these being Dominion of Canada securities and cash. The first of these amounts to $31,861,000 and the second to $46,009,174, the total for the two being $77,870,174.

This sum must have been accumulated from earnings and the justification for the accumulation must have been that a situation might arise calling for the use of additional funds during an emergency. Otherwise this accumulation must have resulted from excess earnings which means, in turn, that the tolls of the Company were too high. It is submitted that if there is a need of additional funds for current operations, which the Province does not admit but denies, the Railway should resort to these reserves until it can be determined beyond doubt that the situation warrants a general increase in freight rates.

(b) The Province will go further and contend that certain Company assets, not described as current, can well be described as reserves and should be liquidated before a general rate increase is warranted.

It will be contended that the financial position of the Canadian Pacific Railway finds no parallel in the ordinary commercial company. This Company cannot be treated as an ordinary company which, by tradition, once the risks of taxation and the impact of general laws have been run, is unlimited as to the profit it can make. To begin with this Company has received large gifts from the people of Canada. For instance, in the contract with the Government of Canada which appears as a schedule to Chapter 1, Statutes of Canada, 1881, it appears by section 9 that the Company received a subsidy of $25,000,000 in money and 25,000,000 acres of land "for which subsidies the Canadian Pacific Railway shall be completed and the same shall be equipped, maintained and operated."

Moreover, the Railway enjoys at least a quasi-monopoly, for competitors cannot and could not build lines freely in competition. The Railway is in truth a public utility and its earnings should be restricted to a sum which will provide proper maintenance, operation and extension and a fair return on investment. It may be assumed that the amount of the capitalization was actually invested in the road but this has been by no means proven.

In fact, the present capitalization of the Railway is only $472,256,921 when the preference stock of $137,256,921 is included. As against this assets of over $1,300,000,000 are claimed in railway property alone, and very substantial non-railway assets are owned by the Company. It seems obvious that many of these assets were acquired quite unnecessarily and that they were acquired through excess earnings and from rates which were unnecessarily high. They actually represent a reserve and probably may be accounted for in part by excess depreciation charges against earnings.

It is not for the Province to suggest in detail which of the assets of the Railway are in fact or by design of a non-railway character, but it is suggested that the Board should examine the matter with close scrutiny. Among the items that should be very closely examined are "Stocks and Bonds—Controlled Companies" which according to the

1946 Balance Sheet have a value of $70,379,542. Included in this item is found capital stock of the Consolidated Mining & Smelting Co. of Canada, Ltd., carried at the somewhat modest value of $8,412,500. This stock in 1946 yielded the Railway Company an income of $7,150,625 in dividends. The other securities under this item should be examined as to whether their ownership is essential to the providing of proper transportation services. So also should the securities under "Stocks and Bonds—Leased Railway Companies" valued at $134,170,939 in the 1946 Balance Sheet.

We believe that a proper examination will reveal that vast sums have been accumulated from unnecessarily high tolls in the past and been invested in these assets. In no way are they essential to transportation and their retention as reserves in a period of temporary crisis, if such exists, is quite unjustified.

The building up of a financial colossus of a type represented by the structure of the Canadian Pacific Railway is unnecessary in Canada. It is foreign to the nature of a public utility. It is foreign to the purpose of the Parliament of Canada which undoubtedly aimed at the creation of a transportation system only, to serve the people of Canada. It is submitted that unnecessary reserves might well be employed at this time if any doubt exists as to the ability of the Railway to carry on effectively.

PART V

IF ADDITIONAL REVENUE MUST BE OBTAINED FROM SHIPPERS, A HORIZONTAL INCREASE IS NEITHER JUST NOR EQUITABLE.

Heretofore in this Submission it has been argued that the present is a most inopportune time for the imposition of increased freight tolls. It has been contended further that in fact the Canadian Pacific Railway has shown no need of increased revenues from freight transportation operations and that even if temporary difficulties should arise there are ample reserves available to meet any situation which may be reasonably envisaged without recourse to an increase in freight rates with the serious economic dislocation which would almost inevitably follow. It will now be argued that the form of relief sought by the railways is quite illogical and contrary to sound and established principles of rate making and that it would be particularly onerous and vicious in its application to Saskatchewan and to Western Canada generally. There are several reasons leading to this conclusion.

(a) A blanket increase on a percentage basis would place the western producer who is comparatively remote from his market at a disadvantage compared to the eastern producer who is nearer his market. Of course, the percentage increase is the same in both instances but the effect of the increase is to raise the cost of hauling goods to market by a greater absolute amount from the more distant than from the nearer shipper. This puts the western or more remote supplier in a more disadvantageous position than was the case before the increase was applied.

This may be illustrated by an example. The freight rate on livestock from Maple Creek, Sask., to Toronto is $1.12½ a hundred pounds (Tariff: C.F.A. 116-A, C.T.C. 448) and from Ailsa Craig, an important cattle shipping point in Western Ontario, it is 20 cents (Tariff C.N.R. C.L. 30, C.T.C. 1438). Under these conditions the more distant producer is under a disability of 92½ cents in comparison with the nearer supplier. If a horizontal increase of 30 per cent. is applied, the rates become $1.46 and 26 cents and the disability of the western producer has increased from 92½ cents to $1.20 in relation to his competitor who is closer to the market. In short, a horizontal increase disturbs the competitive relationship between producers in different parts of the country and is inequitable to those who sell in distant markets in competition with suppliers close to their markets. What is true for livestock is, of course, true for other agricultural products on which the rates are increased horizontally.

This point may be illustrated in another way. The current price for cattle in Toronto is about $14.00 per hundredweight so that the net receipts of the Maple Creek rancher are $12.87½ and of the Ailsa Craig farmer $13.80. The freight is 8.0 per cent. of the gross receipts of the Saskatchewan rancher and 1.43 per cent. of the Ontario farmer's gross. If a horizontal increase of 30 per cent. is applied, and if the price of cattle does not change, the freight rate will amount to 10.43 per cent. of the western gross and about 1.86 per cent. of the eastern. The proposed horizontal increase will reduce the net of the western supplier nearly 2½ per cent. and of the eastern less than one-half of one per cent.

The inequity will become more pronounced if prices of cattle fall to $7.00 a hundred, which was a good pre-1939 price. The existing freight would absorb 16.1 per cent. and 2.9 per cent. respectively of the gross receipts of the Maple Creek and Ailsa Craig farmers. If a horizontal increase in rates of 30 per cent. is put into effect and if there is no change in the price of cattle on the Toronto market, the freight would take very close to 21 per cent. of the gross of the western but only 3.7 per cent. of the gross of the eastern supplier. In other words, the proposed horizontal increase with cattle at $7.00 a hundred cuts the western net by nearly 5 per cent. and the eastern net by less than one per cent. Obviously if one assumes that the effect of the freight rate increase will be to raise prices in the Toronto market, then the percentages will be altered. Nevertheless the essential principle will remain unchanged whether one takes current or depressed prices and whether or not an increase in Toronto prices occurs as a result of the boost in freight rates. However, there is an additional point in the case of the shipper being able to pass on the increase in freight to the consumer, for the freight rate change will have an inflationary effect on prices. The fundamental point is that a horizontal increase bears more severely on shippers in more distant regions than on those who are closer to markets. It disturbs competitive relationships to the injury of relatively remote suppliers. It is neither just nor equitable to producers in different areas.

(b) A horizontal increase applied at the same rate across Canada would place the western consumer, who is relatively remote from the source of supply of most of his goods, at a disadvantage in comparison with the eastern consumer. The same percentage increase in freight rate when it is applied to the already high charge from, say, Toronto to Regina, will raise the price to the consumer in Regina by a larger amount than will the same percentage increase in the freight rate applied to the relatively lower charge from Toronto to London, Ontario. This effect is entirely aside from the question as to whether the influence of truck competition will permit the increase of 30 per cent. which is sought actually to be charged by the railways in Western Ontario whereas it will certainly be collected on traffic into and within Western Canada. In the case of consumers it seems obvious that a horizontal increase is neither just nor equitable.

(c) A horizontal increase is not reasonable because the cost of hauling traffic long distances has not increased in the same proportion as in the case of short haul traffic. The primary contention of the railways in this application is that labour and material costs have gone up and hence rates must be increased, but these increased costs do not impinge with equal severity on long and on short haul traffic. On long haul traffic labour is used more effectively because of less idle time and greater productivity (more ton-miles per man-hour) due to longer trains, more heavily loaded cars and higher speeds. The expense for coal does not increase proportionately with distance because relatively less time is spent by locomotives in roundhouses. Stoking is mechanized and more economical. There is much less idle train time (with consequent savings in wages) in through than in way-freight services.

Rate-making authorities have always recognized that costs and hence rates taper with distance. In other words though total costs and rates increase with distance, they do not do so in strict proportion to distance. On the Prairie standard scale the rate for 500 miles fifth class is 83 cents. The rate for 1,000 miles is not $1.66, or twice the rate for 500 miles, but $1.31 or 79 per cent. of twice the rate for 500 miles. If as a result of

alleged increased costs, a horizontal increase of 30 per cent. is applied, the one rate would become $1.08 and the other $1.70. The new rate for 1,000 miles is still 79 per cent. of twice the new rate for 500 miles but in fact it ought to be somewhat less than 79 per cent. of twice that rate. To assume, as the application for a horizontal increase does, that costs increase on long hauls in exactly the same proportion as costs increase on short hauls is economically unsound and in violation of the widely acknowledged principle that rates should taper with distance. A horizontal increase thus ignores important elements in the practice of sound rate-making and is unjust to the more distant producers and consumers.

(d) On previous occasions the Board and the railways have recognized the inequity of horizontal increases and decreases. During the first World War the Board did authorize a number of horizontal increases but these were usually modified by special scales applicable to certain basic commodities. Several orders of the Board illustrate this. Most important of all, the increases were not uniform across Canada, but in general, were higher in Eastern than in Western Canada. This was done with the object of equalizing, as far as it was then considered expedient to do so, the rate levels in the two sections of the country. The Board was clearly of the view that a blanket percentage increase across Canada was inequitable.

Furthermore, the railways during the depression following the first Great War made a large number of voluntary reductions ranging from three to 60 per cent. These reductions were not made blanket-wise but rather on the basic commodities which constituted the rough products of the field, the mine, the forest and the sea, such as grain, potatoes, ore, lumber, coal, brick, cement, plaster and fertilizer. In evidence before the Special Committee of the House of Commons appointed to consider Railway Transportation Costs, 1922, at page 47, Mr. Beatty, then President of the Canadian Pacific Railway, is reported as follows:

> "It was apparent, however, that in 1921 certain industries felt the depression much more severely than others, and it was the opinion of the railway executives both in Canada and the United States, . . . that inasmuch as the reductions were a matter of relief they should be first extended to those industries which most needed it."

In its report for the same year the Special Committee stated at page 619:

> "Basic commodities which may be afforded reductions should have the earliest possible consideration by the Board of Railway Commissioners."

The Board also had occasion to mention these factors in the same year in re *Freight Tolls,* 27 C.R.C. 153 (1922), the following appearing at page 162,

> "While the recommendation of the Committee is to be treated with respect, it is not binding in law upon this Board. It is arguable that in revising rates, the logical method to pursue is to redress antecedent necessary percentage increases by subsequent percentage decreases, thus minimizing the inequalities which the percentage increases had accentuated. As a matter of emergency action, however, revisions may be made on basic commodities in so far as is possible, consistently with other conditions now existing."

The Board clearly recognized the inequity of the horizontal increase. That this view is widely held is indicated by the following statement by G. Lloyd Wilson, Professor of

Transportation and Public Utilities, University of Pennsylvania, in the *Railway Age*, Vol. 122, No. 20, May 17, 1947, at p. 1013,

> "Percentage rather than specific increases in freight rates are distasteful to many shippers and consignees for a variety of reasons. They tend to disrupt rate relations between industries, communities, and commodities, many of which have been carefully worked out in section or commodity rate cases. They tend, particularly, to harm industries the freight rates of which are based upon ability to bear transportation charges rather than upon cost of service. They have the effect of widening the spreads between long-haul and short-haul rates and to restrict the areas from which raw materials and supplies can be drawn, and to limit the markets in which goods can be marketed. Percentage freight rate increase also tends to impede the development of a large-scale interrelated economic structure in which goods which can be produced or manufactured under conditions of concentrated production in one area are distributed nationally, while other goods which can be produced most efficiently in several or a number of parts of the country and distributed within these areas are each given appropriate interrelated freight rates.
>
> "The evidence is that not all transportation costs, including terminal and line-haul factors, increase with distance or in proportion to distance. The revenue requirements of the carriers should be equitably distributed among various types of traffic, according to a plan which will preserve and not disrupt reasonable rate relationships established by a consideration of the requirements of commodities, industries and markets, rather than by a percentage increase upon all or virtually all freight rates, disrupting these relationships."

Now it is not suggested that the present application should be converted from one for a general increase into one for increases on specific commodities. What is important is that in the past both the railways and the Board have recognized the unfairness of horizontal increases and decreases applicable to all parts of Canada. In the present application it is respectfully suggested that the Board should again consider the inequity of the same percentage change throughout the Dominion especially with respect to the incidence of such changes on producers relatively remote from their markets and on consumers comparatively distant from sources of supply.

(e) By way of analogy it may be noted that in the numerous general rate cases before the Interstate Commerce Commission since 1920, that body has in a large number of instances, including a recent decision, granted increases which were not at the same rate all across the country but which varied with areas and commodities.

(f) The equalization of freight levels has been for many years an avowed policy of the Dominion Government and of the Board. In the Western Freight Rates Case, 17 C.R.C. 123 (1914), the history of toll making in Canada east and west of Fort William was reviewed, the Board finding that no reduction in tolls had heretofore been made in Eastern Canada as a result of charging higher tolls in Western Canada, although it was admitted that the tolls were higher in Western than in Eastern Canada, and that *prima facie* discrimination in such tolls existed. The Railway Act does not forbid all discriminations and preferences but only unjust discrimination or undue preference. The Board

found that the existing discrimination between tolls in Eastern and Western Canada was not unjust but was justified by effective water competition and by the competition of U.S. railways throughout Eastern Canada.

In re *Eastern Tolls,* 22 C.R.C. 4 (1916) at p. 41, the Chief Commissioner speaking for the Board is reported as follows:

> "There is no doubt but what the Act requires and the general public interest of the country as a whole demands, that, if practicable, eastern rates should be advanced so that the different schedules may more nearly approach a parity [with western rates].
>
> "I am aware that an absolute parity is impracticable, but, as conditions become similar, a reasonable parity ought to be obtained."

In re *Increase in Passenger and Freight Tolls,* 22 C.R.C. 49 (1917), at page 84 the Board stated:

> "While it is true that in so far as western territory is concerned, on the great bulk of traffic rates would only increase approximately 10% and eastern rates are, speaking generally, raised 15%., it must be borne in mind that, while the rates in the two different sections of the country are much nearer equality since the reductions worked under the Western Rates Case and the increases given under the Eastern Rates Case took effect, again, speaking generally, rates in the West are still higher."

In the rate increase effective August 1, 1918, Vol. VIII, J.O.R. & R. 277, class rates were increased by 25 per cent. in both Eastern and Western Canada but in the territory west of Fort William the increase already allowed was disregarded. In effect class rates were increased by a greater amount in Eastern than in Western Canada thus further equalizing rates in the two regions. Commodity rates were increased in some instances according to a definite schedule but on commodities not enumerated the increases were higher in the east than in the west.

In *Railway Association of Canada v. Canadian Manufacturers Association, et al,* 26 C.R.C. 130 (1920), the Board granted a general increase of 40 per cent. in eastern freight tolls and 35 per cent. in western freight tolls. After repeating, with approval, the Board's decision, quoted above in re *Eastern Tolls,* the Chief Commissioner states at page 143: ". . . I am of the opinion that it is justifiable to allow a reasonably less percentage of increase on freight tolls west of Fort William than east thereof."

The Governments of Manitoba and Saskatchewan appealed the Board's decision in the 1920 case to the Governor General in Council, who on October 6, 1920, referred the matter back to the Board with the statement (26 C.R.C. 147, at page 151) *inter alia*:

> "Whether or not these reasons [for the difference in rates between Eastern and Western Canada] now obtain in any substantial degree is a question which requires minute and expert investigation such as can be best conducted by the Railway Commission itself and not by Your Excellency's Advisers, but the Committee is strongly impressed with the very great desirability of bringing about with the least possible delay equalization of Eastern and Western rates."

The Board in its judgment, 26 C.R.C. 298 (1920), reviewed its previous decision as directed by the Governor General in Council but refused to make any alterations in the increases previously allowed on the grounds that (a) the interjection of equalization into the rates case was purely incidental; (b) the Board would not have been justified in attempting to deal with so important a question at such short notice; (c) the factors which first led to the establishment of these differing rates, namely, water competition and that offered by the railway lines of the Eastern United States, had been for some years in an abnormal and unsettled condition and that their future influence on rates in Eastern Canada was an entirely unknown and unpredictable quantity. The Board, however, declared that it was prepared in compliance with the request of the Governor General in Council to take up the question of equalization at once.

In re *Freight Tolls,* 27 C.R.C. 153 (1922), at page 177, the decision of the Board is reported as follows:

> "While as a consequence, naturally to be expected, from difference of conditions, many prairie rates have a spread over the eastern rates, the course of the decisions of the Board, including the present decision, has been to narrow this spread wherever possible."

Accordingly, the Board reduced rates in Western Canada to 12½ per cent. and in Eastern Canada to 17½ per cent. above the levels which prevailed prior to September 6, 1920, when the decision in *Railway Association v. Canadian Manufacturers Association* became effective.

Under Order in Council P.C. 886, June 5, 1925, the Board was directed to make a general investigation of freight rates. The policy of the Government and of the Board was declared to be one ". . . of equalization of freight rates . . . to the fullest possible extent as being the only means of dealing equitably with all parts of Canada . . .." In its decision, 33 C.R.C. 127 (1927), the Board dealt with numerous inconsistencies in the rate structure, with the rates on grain through Vancouver, the transcontinental rate scale and the mountain differential. It did not, however, deal specifically with prairie *vis-a-vis* eastern rates.

Thus it can be seen that the trend of the Board's decisions has steadily been toward equalizing rates in Eastern and Western Canada. This trend has been consistently supported by the Government of Canada. It is respectfully but vigorously urged that the Board should continue its own work over the years. Moreover, it should carry to its logical conclusion the policy of the Dominion Government with respect to the very great desirability of bringing about equalization of eastern and western rates. Freight rates east and west ought to be equalized. Above all the discrepancy should not be further accentuated by applying a horizontal increase across Canada.

(g) The railways have sought to justify a horizontal increase by the argument that an emergency exists requiring immediate action. This Province denies that any element of urgency has been shown and certainly the prosperity of the Canadian Pacific Railway since the application was made is an effective answer to the blue-ruin argument of the railways. In any event it is not conceded for a moment that a blanket increase is a fair and equitable method of obtaining any increased revenue which may be needed. Whatever financial need exists is the result in large measure of widespread reductions in freight and express rates which the railways introduced during the depression so that they might

be better able to meet the competition of truck and water carriers. This competition was keenest and the reductions greatest in the thickly settled portions of Ontario and Quebec. It is not just and proper for the railways now to ask for a general increase until they have completely exhausted their ability to obtain revenue by restoring rates which were cut for competitive reasons. It is illogical for the railways to ask for a horizontal increase applicable at the same level all across Canada in order to correct losses of revenue from piecemeal competitive reductions which were important in only one part of Canada. If a need for revenue were shown to exist it would not justify such inequitable treatment.

(h) It is not contended that it is a function of the Board to offset the geographic disadvantages of regions but, on the other hand, it must be emphasized that it is most decidedly not the duty of the Board to accentuate the transportation disability of Saskatchewan by approving a percentage increase at a uniform rate across Canada. This is not a general rate enquiry and the Province does not at this time make application for the equalization of rates across Canada but it does vigorously protest against a blanket increase uniformly applied throughout Canada. Such an increase, if granted, would exaggerate present inequalities and aggravate present inequities.

PART VI

A RATE DIFFERENTIAL ALREADY EXISTS AS AGAINST THE WESTERN PROVINCES. IN THE EVENT OF ANY INCREASE IT SHOULD BE LIGHTER IN THIS AREA.

For the various reasons which have been outlined above and which will be amplified in argument before the Board, the Province denies that there is any need of an increase in freight rates at this time, and this denial is made even if the case is to be considered as a financial one only. Nevertheless it is possible that on this or some future occasion the Board will find that the railways require additional revenue and that this should be obtained by increasing freight rates. In such an event it is submitted that the increased burden should not fall on the western area. The reasons for this contention will be outlined below.

(a) An accurate comparison of freight rates in different sections of a country is difficult because of differences in the proportion of traffic in the higher classes and in the lower commodity groups, variations in the length of haul, the relative amounts of carload and less-than-carload traffic, and the prevalence of blanket or group rates, agreed charges, and overhead traffic. Nevertheless it can scarcely be denied that, generally speaking, rates in the west are higher than in the east.

Carload traffic may move under Standard Mileage rates, Commodity Mileage scales, Special and Competitive tariffs or Agreed Charges. Standard mileage class rates are generally higher in the west as shown by Mr. R. A. C. Henry's study for the Rowell-Sirois Commission and by the exhibits introduced by Mr. C. E. Jefferson, Mr. R. E. Moffat and Dr. Archibald Currie in this case. Certain classes, notably tenth, and certain distances, particularly the short hauls, are lower in the west but, on the average, the rates are ~~9~~ 3.6 per cent. higher.

Commodity mileage scales apply (in the absence of Special and Competitive tariffs) to livestock, cement, lumber, grain for local consumption, fertilizer, coal, hay, etc. They vary a good deal with the particular commodity involved and with different lengths of haul but are a little higher or about the same in the west as in the east. In practice there are a good many departures from these scales on account of truck and water competition, two-line hauls (i.e. interchanges from American lines), agreed charges and so forth. Because of the greater prevalence of competition in the east than in the west, the departures from the commodity mileage scales are greater on balance there than in the west. In other words, the rates under which these commodities actually move in the east are depressed farther below the commodity mileage scale than is the case in Western Canada. This conclusion is borne out by Mr. Moffat's study of coal where the commodity mileage scale is substantially the same in Eastern and Western Canada but where the revenue actually received by the carrier, after adjusting for the length of haul, is lower in the east than in the west. Reference is made generally to Exhibits 323, 323A, 324, 325 and 326 in this regard.

Special and competitive tariffs (carloads) are very important in any East-West comparison because (1) they apply to a considerable volume of traffic and (2) they

show the influence of truck or water competition or both. Exhibits 371, 372 and 373 filed in the case compare competitive commodity rates with the standard mileage class rates which would apply in the territory concerned if no competitive or commodity mileage scale existed. These Exhibits show three factors of great importance: (i) reductions of competitive commodity rates below the standard mileage are greater in the east than in the west, the percentages being roughly 35 and 25 respectively; (ii) competitive rates are applicable to a great many more commodities and between a very much larger number of points in the east than in the west; (iii) the reductions below the standard mileage tariff or water, truck, or truck and water compelled rates are considerable, being in the order of 45 to 50 per cent. The number of commodities and the points of origin and destination involved under this tariff is very large. There is no comparable tariff at all in the west. Some truck compelled rates do exist but the west has nothing whatever corresponding in volume to the water, truck, or water and truck competitive tariff of Eastern Canada. This is an exceedingly significant point.

The actual revenues received by the Canadian Pacific Railway for handling various commodities, e.g., cement, coal, coke, automobiles, livestock, ores, and petroleum have been compared for Eastern and Western Canada by Mr. Moffat. His Exhibit (326) does not consider under what particular tariff the various commodities move but it does correct for length of haul. In other words, it takes the actual average rate and actual average length of haul for sixteen commodities in eastern and western territory. It then shows what the eastern rate would have been if the goods had been hauled the same distance as they were actually hauled in the west. Because the actual western rate for the average haul in the west is already known, it is possible to compare western revenues with eastern revenues assuming that the traffic in the east had been hauled for the same average distances as it actually was hauled in the west. The exhibit shows that western average revenue per ton exceeds eastern average revenue per ton by 14 per cent. when all traffic is considered. In view of the argument frequently advanced that the west benefits unduly from exceptionally low rates on grain, it is significant that this exhibit shows that the actual western average revenue per ton of grain and grain products is $3.33 and that the eastern average revenue per ton of grain adjusted to western average haul is $2.84. In total, the actual western revenue was over $29 millions whereas if the western traffic had been moved the same average distance but at eastern average revenues per ton, the total freight bill on grain and grain products would have been less than $25 millions. The average revenue in the west is higher than the eastern average revenue (adjusted to correspond to the western average haul) on fruit and vegetables, cement, anthracite and bituminous coal, coke, ores and concentrates, petroleum, dressed meats, grain and grain products, livestock, lumber, sand and gravel and miscellaneous manufactures. The western level was lower on only three groups of commodities, namely, paper products, refinery and smelter products, and woodpulp.

Agreed Charges may apply on either carload or less-than-carload traffic. The only evidence on Agreed Charges submitted in the case related to Petroleum Products (Exhibit 32) and in this case the rates on typical hauls in the west were substantially higher than in the east.

Some less-than-carload traffic moves under standard mileage scales or under distributing or "town" tariffs which are roughly 15 per cent. below the standard mileage class rate. The classification is, of course, the same in both areas and, in general, L.C.L. traffic moves at higher rates. A good deal of the L.C.L. business moves out of distributing centres to consuming points and, roughly speaking, the length of haul is longer in the west than in the east. The exhibits filed by Mr. Moffat which, in effect, present in graphical form exhibits already filed by the railways, show that particularly for Classes I and II and to a lesser extent for Classes III and V prairie standard rates are higher than central standard rates, Class IV being roughly the same. It is important to note also that this differential increases with the length of haul. In the main, Prairie L.C.L. traffic moving for short distances pays about the same as eastern traffic with the same length of haul. But most western L.C.L. traffic moves for distances of from 100 to 400 miles where the western rates are considerably higher than the rates for the corresponding distances in the east. It is clear, therefore, that L.C.L. traffic moving under standard mileage scales pays higher charges in the west than in the east. Incidentally, western distributors are less able than their eastern counterparts to ship L.C.L. lots by truck at rates which are typically lower than the charges by rail. It may be noted too that the eastern distributing or "town" tariff applies *between* all points in the territory covered by the "town" tariff whereas the corresponding western distributing tariff applies only *from* the distributing centre *to* the consuming centre and not in the reverse direction. To the extent, therefore, that L.C.L. lots move from small communities into distributing centres they must pay at the standard mileage scale which is typically 15 per cent. higher than the distributing scale.

Some L.C.L. traffic does not move under standard mileage scales but under special L.C.L. competitive tariffs. Comparison here is difficult because different commodities are included in the special L.C.L. tariffs applicable to the two regions. Moreover in both areas there are some Quantity rates i.e., rates in the special and competitive tariffs (carloads) referred to above which are, in general, intermediate between the ordinary L.C.L. rate, and the minimum C.L. weight and C.L. rates. However, a comparison of the L.C.L. competitive tariffs shows (a) the rates per mile are somewhat lower in the east because (1) some of them are tied to distributing class rates which are lower in the east than in the west especially for the distances from 100 to 850 miles which distances include a relatively larger amount of L.C.L. traffic in the west than in the east (2) in Saskatchewan and Manitoba rates by truck are, by administrative order, held close to the corresponding rail rates whereas in Ontario and Quebec there is no such control. In the east rates by rail on L.C.L. traffic are either forced down or shippers are able to take advantage of low rates by trucks (b) on the prairies free pick up and delivery service is given at substantially fewer points than in the east.

In November, 1944, Mr. A. R. Treloar, Assistant Manager, Transportation Department, Canadian Manufacturers Association, discussed the relative levels in Eastern and Western Canada in a course organized by the Department of Extension of The University of Toronto for the Canadian Industrial Traffic League. After dealing with the general rate cases in detail Mr. Treloar concluded by saying (at pp. 63-4 of a *Verbatim Report of the Lectures*):

"As between Eastern territory and territory west of the Great Lakes, it would appear from the best estimates available that a difference in rate level still maintains of something in the neighborhood of 15 % but this review of the various rate adjustments directed by the Board over a course of a number of years clearly reveals a continuous tendency to narrow the spread between the general levels obtaining in these two territories as conditions develop to make this practicable and feasible."

Mr. Treloar was, of course, speaking before the present case was instigated.

To sum up, there seems to be no question whatever that, despite numerous exceptions, freight rates are higher in Western than in Eastern Canada. The exhibits filed in this case prove this. The Assistant Transportation Manager of the Canadian Manufacturers Association has stated this. The Board in previous cases has recognized this.

In re *Western Tolls*, 17 C.R.C. 123 (1914) the burden of the Board's decision was that it was admitted that tolls were higher in Western than in Eastern Canada. The Railway Act, however, does not forbid all discrimination and preferences, but only those which are unjust and undue. The existing discrimination between tolls in the two areas was found not to be legally unjust but was justified by effective water competition of United States railways in Eastern Canada. The same sentiments were reiterated in 1916 in the Eastern Rates Case.

The quotations appearing in Part V of this Submission and the decisions there referred to show that the Board and the Dominion Government have recognized that freight rates are generally higher in the west than in the east. In 1920 the Chief Commissioner stated that the difference amounted to between 15 and 18 per cent. Since that date the decisions in the Crow's Nest Pass rates relating to grain westbound for export, 29 C.R.C. 238 (1924) along with the statutory provision regarding the application of Crow's Nest Pass Agreement rates on grain and flour eastbound (Statutes of Canada, 1923, chap. 52) tended to lower western rates relative to those in the east. On the other hand, the very numerous and considerable reductions in individual items which the railways made to meet truck and water competition were much more important in the east than in the west. As a result of the Board's decisions and the Crow's Nest Pass Amendment western rates came down but due to piece-meal reductions for competitive reasons, eastern rates came down as much, if not more. In consequence the discrepancy between eastern and western rates must be nearly as large as in 1920. This general conclusion is borne out by the particular studies submitted in evidence in this case. To sum up it is undeniable that (a) a difference of about 15 per cent. still exists between eastern and western rates (b) the Board since its establishment had consistently followed a policy of equalizing the rates between Eastern and Western Canada (c) this policy of equalization has been confirmed by the Government.

In previous cases the Board has refused to equalize completely the discrepancy between eastern and western rates because, it said, there were two elements—cost and competition, accounting for the difference. Cost comparisons are not easy to express in statistical terms partly because it is impossible to deal with all the factors

exhaustively and partly because railway accounts are not set up to reveal the data to anyone who has not access to the special studies made by them for the purpose of guiding their operating practices. This much can be said, however, that since 1920, the date of the last thorough investigation of relative rate levels east and west, the conditions under which traffic is handled have so changed that many cost disabilities which formerly may have existed against the west have either ceased to exist or are of so minor a character that they cannot be used to justify the existing, and certainly not the growing, discrepancy in rate levels between the two regions. It must be emphasized that no attempt will be made at this time to explain cost of operation in terms of revenue, ton-miles, locomotive-miles or any similar basis. All the immediate presentation seeks to establish is that the conditions of cost which in 1920 may have justified higher rates in Western Canada than in Eastern Canada have now ceased to exist and therefore the Board should continue its historic policy, sanctioned by the Cabinet, of equalizing rates between the two regions.

(b) Attention should be drawn to a second significant factor. The cost of construction of lines in the prairies has always been lower than elsewhere because of relatively level terrain, free land for right of way and stations, government subsidies, etc. In Central Canada land was expensive to purchase initially and additional land needed for terminal facilities, access to new industries, larger or better located station sites, etc., has been costly to acquire. Equally important is the fact that in an effort to meet the competition of motor trucks, buses and private automobiles, trains operate at much higher average speeds than in Western Canada. This involves heavier rails, ties and track fastenings, deeper ballast, closer spacing of ties, better drainage, the elimination of sharp curves and steep gradients, the replacement of bridges, the installation of automatic block signals, etc. Furthermore, the trains themselves are more expensive because of the higher cost of high speed locomotives. In short, capital costs are higher in Eastern than in Western Canada, and this difference is steadily widening.

In addition fast trains whether passenger or freight are more expensive to operate than the slower passenger train and long "drags" typical of the west. Rolling stock and track must, at great expense, be maintained at a higher standard of perfection than where trains move more slowly because minor defects have disastrous results with fast trains. Slower trains must be side-tracked to allow fast freight and passenger trains to pass. If the slow train does not clear the main track in time the fast one is delayed, schedules are disrupted, connections broken and the travelling public disgruntled. This is particularly true because fast trains of necessity operate on a tight schedule and time lost through lack of clear track or a slight failure of equipment can rarely be made up.

Alternatively, slow trains must be put in sidings in ample time to clear the main line. The "Limited" can highball through but labour costs on the slow train accumulate while the crew sits waiting on the passing track for the crack train. These conditions do not apply to the west where train speeds are typically slow and the number of high-speed, high-cost trains is small.

Railway operating men generally recognize that the bottleneck in operation lies in the terminals. The cost of line haul has been pared down and movement between terminals made expeditious but terminal operation is still difficult and terminal

costs intractable. This terminal problem has grown up chiefly in the last twenty-five years and is much more acute in Ontario and Quebec than in the west. To begin with, the terminals are closer together than in the west. They are sometimes cramped for space. A large number of carloads and L.C.L. lots must be sorted out for numerous destinations. Although there are undoubtedly definite lines of traffic flow, these are not nearly as pronounced as in the west. For example, a huge volume of grain can be sent through modern terminals near Winnipeg without any great difficulty and forwarded to substantially one destination, the Head of the Lakes, for rapid unloading. In the east an equal volume of freight would move through several terminals, each one of which would be more difficult and expensive to operate because of the larger volume of traffic handled relative to the cramped facilities and because of the need for breaking down the freight trains and reassembling the cars for a great many scattered towns. Moreover, when the freight train arrives at the ultimate destination, there will probably be very expensive intra-terminal movements to team tracks and industrial sidings distributed widely throughout the whole metropolitan area. This terminal problem—to reiterate one of the most expensive aspects of railway operation—has always been a much less costly matter in Western than in Eastern Canada and in the last 25 years the differences have become accentuated.

In short the costs of railway construction and operation are higher in Central than in Western Canada and the freight rate structure should reflect this condition. It must not be forgotten either that the value of high speed service is considerably greater than the value of slow transportation. It is a widely accepted principle in public utility economics that value of service to the user is an important factor to be considered in determining rates.

Operating costs in the west are relatively lower than in 1920 for another reason. The bane of railway operation in the west has always been the high seasonality of business. Grain had to be rushed to the Head of the Lakes for shipment before the close of navigation. There had to be a quick turn-around, enormous back haul of empties and idle or partially used cars and locomotives during the months of the year when little grain moved. Moreover, the railways could not forecast the size of the crop accurately, or tell much in advance of the grain moving season in what particular areas crops would be heavy and the need for equipment great. They could not afford to take a chance on a poor crop by getting only a small part of their rolling stock in first class condition, nor could they leave one district without an ample supply of cars in the expectation that its crop might be a small one. They were compelled, at considerable expense, to prepare for a large crop every single year, knowing that in many years there would not be a bumper yield and that some of the equipment would be under-employed.

These conditions, so the railways alleged, accounted for the high cost of moving grain. Now the rates on grain are not at issue in this case, and whether this traffic does or does not bear its proper share of the costs is not in issue. It is significant, however, that prior to 1929 those years in which the volume of grain handled was higher than average tended to coincide with the years of high railway earnings. Be that as it may, the grain business can be handled more economically than formerly. Crop forecasting has enormously improved and the carriers are better able to keep

their supply of equipment in line with traffic requirements. Freight trains, though in most cases still slow according to Central Canadian standards are faster than in 1920, and more serviceability can be got out of the equipment in a given year. Terminal and country elevator design has improved and a quicker turn-around is possible. Locomotives are more powerful, cars are larger, and therefore the cost per ton-mile has been reduced. Saskatchewan does not admit that the low statutory rates for hauling grain throw any financial burden on the railroads, but even if the carriers are prepared to argue that the Crow's Nest Pass rates do handicap them, the Province will contend that the burden, if any, is lower than in 1925 and that non-statutory rates, that is, the rates on other types of traffic, should reflect this condition. Furthermore, the outlet for grain through Pacific ports has grown up almost entirely since 1920, and this tends to be more of a year round movement than the traffic to the Head of the Lakes. There is not the same rush to get cars back to the west for immediate refilling with grain and some cars at least can be held in Vancouver to be loaded for back haul.

Allied with this has been a shift in the volume and character of incoming freight to the west. Unfortunately Canadian Railway statistics do not show ton-miles by commodities or by regions, nor the volume of freight moved between regions, consequently it is difficult to demonstrate the situation numerically, but it is an incontrovertible fact that twenty years ago horses were used almost universally. Today, as will be shown in Part VII below agriculture is highly mechanized and as tractors, motor trucks, combine-harvesters and other large scale machinery become available it will be used even more extensively. Horses used locally-grown feed whereas tractors, motor trucks and self-propelled combines consume gas or diesel fuel from distant points. The railways have gained from the shift in agricultural methods.

In the course of the last few years production of livestock, dairy products, eggs, poultry, honey, etc., has expanded greatly in the west. All these goods, unlike grain, are carried at non-statutory rates. If the railways argue—and again the Province would not admit the point—that the grain traffic carried at Crow's Nest Pass Agreement rates is not profitable, they must admit that livestock and its products carried at non-statutory rates are presumably a more profitable business for them to handle and that consequently the western mileage is cheaper to operate than it was twenty years ago.

Furthermore, when farm incomes are high enough prairie farmers buy large quantities of fresh fruit, radios, household furnishings, automobiles and other durable consumers goods. The railways have profited as a result of farm purchases of articles previously produced on farms for home consumption, and of articles not heretofore in general use. The purchase of all these articles is either in anticipation of seeding or harvesting crops, or contingent on the farmers' net income, which, of course, can not be estimated until the harvest is complete. The purchases of all the articles enumerated above do not coincide with the crop movement or at any rate the bulk of the purchases do not do so. These articles are either shipped more or less regularly throughout the year or their peaks do not coincide with the peak of the grain movement. The new business has largely developed since 1920 and fills up the valleys of railway traffic in the west and improves the cost picture. The significant thing is

that railway operation in the west is not concentrated in a single peak to anything like the extent it was in 1920. As a result the cost of operation in the west is lower, relative to Central Canada, than was the case at that time. The cost conditions which in 1920, so it was alleged, justified higher rates in the west have ceased to exist and therefore the Board should carry to its logical conclusion its policy of complete equalization of rate levels.

Now it is open to the Railways to contend, first, that some costs are still higher in the west and secondly, that costs per ton-mile are lower in the east due to greater density of traffic. On the first of these points there are many factors besides high speed trains, and terminal expenses which enter into railway costs. Ties may be slightly more expensive in the west than in Ontario because of the cost of hauling them to the place of use, but the higher proportion of untreated ties in the west may offset this factor. Ties last longer because trains move at slower speeds, and do not rot as quickly on account of the dry climate. Lower rainfall accounts for less work in trimming up the ballast and realigning track. Coal may be more expensive, though the railway accounts do not show cost of raw materials by regions. In any event, the marked economies in the use of coal per locomotive-mile or ton-mile during the last twenty-five years has reduced whatever difference may have existed in 1920. Moreover, mechanical stokers and fire-boxes of improved design permit the use of lower grade fuel, that is, of the type of fuel which is the typical product of Alberta and British Columbia, not of Pennsylvania and Virginia fields. Wages per hour are identical but wages per ton-mile are probably lower due to higher tonnage per train on account of heavier loading per car, and the large number of cars in a train. Cost of maintenance of way per mile-of-line is lower than in the east because the track is not maintained at as high a standard.

Quantitive measurements of the differences in these costs between Central and Western Canada are not available due, as already indicated, to the set-up of railway accounts. But it is asserted vigorously that these differences have been reduced since 1920. Whatever they may have been then, they are less today. Whatever they may be today, they are not great enough to account for the large and growing discrepancy in freight rates east and west or for a reversal of the Board's policies of equalizing rates between the two regions.

The Railways may argue that although costs in the east per mile of track or per train-mile are higher than in the west the costs per ton-mile—the important thing in rate making—are lower on account of the greater density of traffic. Again the Province is handicapped by a lack of data but the Report of the Duff Commission shows that for the year 1931 the proportion of low traffic lines was very much lower in Western than in Eastern Canada. While situations may occur from time to time which may temporarily change the relationships, fundamentally it is still true that traffic density is relatively better west of the Great Lakes than it is east. Further evidence of this fact lies in the numerous applications for line abandonment in Eastern Canada, relative to the number in Saskatchewan. In short, the movement of ton-miles per-mile-of-line is not an adequate reason for keeping rates in Central Canada generally lower than they are in the west.

(c) The facts and the argument used in this Part have dealt largely with a comparison of rates and costs in the west and in the central part of Canada. In the matter of costs the statements might have been more sweeping and it might have been contended that in no part of Canada, east or west, are the freight rates so high in relation to costs, both capital and operating, as in the prairie region.

This Province does not request a specific reduction of rates at the present time but the contention is definitely put forward that due to favourable terrain, low cost of construction, less congested terminals and relatively slower but more heavily loaded trains, the cost of operation on the Prairies is lower than in Central Canada. Consequently, if regional costs of operation is to be the criterion of reasonableness of rate levels, Saskatchewan ought to have lower rates than Ontario and Quebec. We can see no justification whatever, now that the competition of American railway lines and water carriers is ceasing to depress Eastern Canadian rates and much of the rail-truck competition is uneconomic, why we should be asked to pay rates higher than those in the east. Above all, we are convinced that the discrepancy between the two regions should not be widened by a horizontal increase applied at the same rate all across Canada.

The matter of truck and water competition as an explanation of rate differentials will be dealt with at some length in Part VIII and in other portions of this Submission. The Province certainly does not ask for railway freight rates which will offset its geographic disabilities but it does expect that the Board will see to it that the penalty of a discriminatory rate structure is not imposed on top of its geographic disabilities. And it does not recognize the equity of the railways being permitted to carry freight below remunerative levels in order to meet truck competition with the result that other railway freight rates are uneconomically high.

To sum up, there has always existed some difference in rates between Western and Central Canada. The Board has consistently tried to eliminate these differences but felt that it could not do so because of differences in cost and competitive conditions. Since 1920 the circumstances relating to the cost of handling traffic and to the types of goods moved have reduced if not completely eliminated whatever cost differential may at one time have existed. For various reasons water competition is no longer a sound reason for lower rates in Eastern Canada. Truck competition is more potent in one area than in another and the policy of the railways during the last fifteen or twenty years has been to cut their rate to meet the price of truckers. This has resulted in an uneconomic rate structure and inexcusable waste of resources. The rate cutting has exaggerated the lack of equalization between Eastern and Western Canada, and the proposed increase, if granted, will further accentuate it because it will be indelibly painted on the west but whitewashed on the east.

PART VII

HIGHER FREIGHT RATES WILL BE PARTICULARLY ONEROUS ON SASKATCHEWAN

Evidence presented to the Board at hearings at Ottawa and more particularly at regional hearings throughout Canada has emphasized the tremendous influence exerted on the Canadian economy by the freight rate structure. There is probably no other form of charge for service which directly or indirectly affects each individual citizen more than rates charged for the transportation of goods by rail. For the Province of Saskatchewan, depending almost entirely on rail transportation for the export of primary products and for the importation of vast quantities of producer and consumer goods, the impact of freight rates is already heavy and any increase in those rates, expecially if the horizontal principle should be accepted by the Board, would impose an additional and particularly unfair burden on a regional economy already strained in the interest of national policy.

The railways in the presentation of their evidence have consistently argued that the present case is purely a financial one, the sole issue being the revenue needs of the railways. Saskatchewan submits that such a narrow interpretation is completely untenable. If the estimates of increased revenues to be derived from the granting of the Railway Association's application are to be realized it is axiomatic that these additional revenues must be provided by the users of freight services. Yet it is the statutory obligation of the Board to set "just and reasonable" rates. Rates must be fair to those who are called upon to pay for railway services. This principle, it is submitted, involves careful consideration of the effects on both Dominion and regional economies of any increase in rates. It is suggested, therefore, that the following discussion of the economic development of the Province of Saskatchewan and the relation of transportation problems thereto is completely relevant to the issues before the Board in the present case.

Railways, Settlement and Agricultural Development

The geographical disadvantages of the Province of Saskatchewan, arising from its mid-continental position, are obvious and admitted. The Rockies and the Selkirks, with all the difficulties they offer to transportation, separate us from the Pacific Coast. A thousand miles of wilderness, yielding relatively little in the way of revenue freight, separates us from the industrial areas of Ontario and Quebec. A further non-productive stretch of territory separates us from the ports of the Maritime Provinces.

Nature denied Saskatchewan any effective alternatives to rail transportation for the movement of freight. There is a complete lack of water routes, whereas in Eastern Canada natural waterways, supplemented by canals constructed at great expense to the nation as a whole, provide producers and consumers with alternative forms of transportation which in turn have exerted tremendous competitive pressure

on rail rates in that part of Canada. In addition the natural resources of the province have set limits to population density, and, consequently, to the building of hard-surfaced highways. Weather conditions during a large part of the year prevent highway transportation on anything but a minor scale. Thus the movement of goods by motor carrier is restricted and the bulk of all traffic must move by rail at rates virtually unaffected by truck competition.

On the other hand, Saskatchewan offers many geographical advantages to railway construction and maintenance, the benefits of which, it is submitted, are not reflected in the freight rates which its people are called upon to pay. Railway construction costs were low due to the nature of the terrain, gradients are easy, curvature is slight, there is a minimum of cuts and fills of an expensive kind, and there are no serious terminal problems. Maintenance costs likewise are reduced to a minimum. There are no parts of the right of way where the danger of rock slides requires constant patrolling and rock scaling or regular snow removal. The dry climate ensures the maximum useful life of ties and wooden structures. It may be fairly stated that Saskatchewan probably offers greater encouragement to cheap and economical railroading than any region in Canada.

As a matter of national policy the Government of Canada determined that a transcontinental railway should be built wholly within Canadian territory rather than follow the more obvious route which would have necessitated a portion of the line passing through the United States. This was done at very considerable cost not only in construction around the rocky north shore of Lake Superior but in operation since. This portion of the route involves sharp curves, constant patrolling, periodical scaling to avoid rock falls, and above all produces little revenue traffic. It merely supplies a traffic "bridge" between Eastern and Western Canada.

The national policy of an all-Canadian railway lent support to a "National Policy" of trade and tariffs which could visualize an industrial Eastern Canada, linked to the west by rail, supplying the demands for producer and consumer goods which would develop with the opening of the prairies to agricultural settlement. This desire to promote an east-west flow of trade again revealed itself in 1897 when lower rates were agreed upon by the C.P.R. and the Government under the terms of the Crow's Nest Pass Agreement for the movement of grain and certain grain products from the prairies to the east for export and for the westward movement of a wide range of consumer and producer goods.

While natural features of soil, topography, and climate determine the productive capabilities of Saskatchewan, its settlement was undertaken and its development has been largely circumscribed in the interests of national policy. Saskatchewan, as a province, came into being in 1905 in the era of active settlement promoted by the Dominion Government. The rapidity of population growth in the years immediately preceding and for some time after the granting of provincial status, the subsequent reverses, and rural-urban shifts of population are shown in Table I.

TABLE I

Population of Saskatchewan and Distribution Between Urban and Rural, 1901 to 1946

Year	Total	Rural	Urban	Rural (per cent)	Urban (per cent)
1901	91,279	77,013	14,266	84.37	15.63
1906	257,763	209,301	48,462	81.20	18.80
1911	492,432	361,037	131,395	73.32	26.68
1916	647,835	471,538	176,297	72.79	27.21
1921	757,510	538,552	218,958	71.10	28.90
1926	820,738	578,206	242,532	70.45	29.55
1931	921,785	630,880	290,905	68.44	31.56
1936	931,547	651,274	280,273	69.91	30.09
1941	895,992	600,846	295,146	67.06	32.94
1946*	832,688	515,928	316,760	61.96	38.04

*—Preliminary.
SOURCE: *Census Reports* of the Dominion Bureau of Statistics.

Agricultural settlement in Saskatchewan was made possible by the construction of transcontinental railways and branch lines. At the beginning of the century the Canadian Pacific Railway main line (completed in 1885) traversed the southern portion of the prairie area but, with the exception of short extensions of lines from Manitoba serving a limited area in eastern Saskatchewan, branch lines were confined to one running from Regina through Saskatoon to Prince Albert and another from Moose Jaw through Estevan and thence through American territory to St. Paul. Prior to 1900 agricultural settlement made relatively little progress but after 1900 railway construction encouraged expansion and in turn was stimulated by the rapid influx of population. Prairie conditions facilitated rapid and relatively inexpensive railway construction and mileage increased greatly in the first decade of the century. Settlement tended to anticipate the laying of steel in the semi-arid plains area but branch lines were extended into that area between 1911 and 1916. Following the interruption caused by the first World War construction was resumed and the present network of railways serving, and being supported by, Saskatchewan agriculture was practically complete by 1930.

It may be well to note here that despite this rapid extension of rail services overbuilding has not been a marked characteristic of railway expansion in the Prairie Provinces, for, as Dr. Mackintosh observes after reviewing the difficulties which overwhelmed the Grand Trunk, the Grand Trunk Pacific and the Canadian Northern and forced the Dominion to take them over, "it is only fair to say that the disaster resulted from over-construction not in the Prairie sections but in Northern Ontario and Quebec and in British Columbia."[1]

[1] W. A. Mackintosh, *Economic Problems of the Prairie Provinces,* (Toronto, 1935), p. 35.

The close inter-relationship existing between railways and settlement in a pioneer country has been emphasized by other economists in reviewing Dominion land policies in Canada. Large grants of public lands were made by the Government of Canada to the C.P.R. and Dr. Carrothers has pointed out that "the Canadian Pacific Railway....became directly interested in the colonization of the prairies for two reasons, first, for the disposal of its land, second, to provide traffic for its lines" [2] while Professor Morton, the historian, was led to observe that grants of public lands "made the Canadian Pacific, next to the Government, the most potent immigration agency in the country." [3]

Before considering the results of this rapid expansion in a new country Table II is useful in tracing the agricultural growth of the province.

TABLE II.

Number and Area of Farms and Acreage under Field Crops in Saskatchewan, 1901 to 1946.

Year	No. of Farms	Area of Occupied Farms	Average Occupied Area per Farm	Area Improved	Average Improved Area per Farm	Area Under Field Crops
	No.	Acres	Acres	Acres	Acres	Acres
1901	13,445	3,833,434	285.1	1,122,602	83.5	655,537
1906	55,971					3,271,436
1911	95,013	28,099,207	295.7	11,871,907	125.0	9,136,868
1916	104,006	36,800,698	353.8	19,632,206	188.8	13,973,382
1921	119,451	44,022,907	368.5	25,037,401	209.6	17,822,481
1926	117,781	45,945,410	390.1	27,714,490	235.3	19,558,964
1931	136,472	55,673,460	407.9	33,548,988	245.8	22,126,329
1936	142,391	56,903,639	399.6	33,631,608	236.2	21,967,167
1941	138,713	59,960,927	432.3	35,577,320	256.5	19,735,296
1946*	125,650	59,393,974	472.7	35,596,046	283.3	22,349,278

*—Preliminary.

SOURCE: *Census Reports* of the Dominion Bureau of Statistics.

With the establishment of more than 100,000 new farms in the first two decades of the present century, involving an additional farm area of upwards of 40 million acres, an increase in the improved acreage of about 24 million and an increase in the area under crop from slightly over half a million acres to almost 18 million acres, it

[2] W. A. Carrothers, *History of Immigration Policy and Company Colonization,* Part II, Chapter ii (from proofs kindly lent by the Macmillan Company of Canada.)

[3] A. S. Morton, *History of Prairie Settlement and "Dominion Lands" Policy,* (Toronto, 1938), p. 65.

is scarcely surprising that mistakes in land utilization occurred. Weaknesses in the agricultural economy have been revealed in recurring periods of drought and depression and over the past fifteen years in particular the emphasis has shifted from problems of expansion to problems of conservation.

The great natural advantages of the Province of Saskatchewan in the production of high quality wheat in volume have dictated and will continue to dictate a wheat economy and nothing in the foreseeable future seems likely to change this in any significant degree. The dominant position of cereal production—and particularly of wheat— in the economy of Saskatchewan must be conceded but it should not obscure the fact that other agricultural products are produced in quantity, the bulk of which must find a market outside the boundaries of the province.

As the greatest producer of foodstuffs for export in the Dominion, Saskatchewan is almost entirely dependent on outside markets for the sale of its products. Consequently rail transportation costs, as high or higher than elsewhere in the Dominion, constitute the most important fixed charge for service that the economy of the province is called upon to bear.

TABLE III.

Population of the Prairie Provinces, 1936 and 1946

	1936	1946*	Increase or Decline
Manitoba	711,216	726,923	+15,707
Saskatchewan	931,547	832,688	−98,859
Alberta	772,782	803,330	+30,548
Prairie Provinces	2,415,545	2,362,941	−52,604

*—Preliminary.

Source: *Census Reports* of the Dominion Bureau of Statistics.

On the other hand, Saskatchewan is, (except for Prince Edward Island) the least industrialized of all the provinces and therefore is forced to depend on outside sources for vast quantities of producer and consumer goods, again necessitating long and expensive rail hauls. Although the population of the province declined by nearly 100,000 between 1936 and 1946 it remains the fourth largest province and an important market for the manufactured goods of Eastern Canada. The prairie—and particularly the Saskatchewan—market is vital to the development and stability of eastern manufacturing centres. The absolute decline in Saskatchewan's population shown in Table III, exceeding the increases in the other Prairie Provinces by some 52,000 over the past decade holds serious implications for Eastern Canada and any factor which will tend further to weaken the relative economic position of the Saskatchewan producer and consumer will inevitably be reflected in further population losses.

The Mechanization of Prairie Agriculture

Machinery has played an important part in the efforts of prairie farmers to increase efficiency and reduce costs of production. The trend to mechanization is illustrated in Table IV. The horse and horse-drawn implements have, in large measure, given place to the tractor, the motor truck, the harvester-combine and large-scale farm machinery. The importation of this equipment, together with a large tonnage of repair parts, from Eastern Canada and the United States, has in itself furnished an increasing volume of traffic for the railways. The mechanization of prairie agriculture has also involved a spectacular increase in the consumption of petroleum products of all kinds, and the crude oil for processing together with a large volume of the refined products required for the operation of mechanized equipment move by rail. Thus, any increase in freight rates would bring an immediate and sharp increase in the farmers' cost of production both in respect of the laid-down cost of farm equipment and in the cost of operating it.

TABLE IV.

Number of Tractors, Motor Trucks, Combines and Gasoline Engines on Farms, Saskatchewan and Prairie Provinces, 1921 to 1944.

	TRACTORS		MOTOR TRUCKS		COMBINES		GAS ENGINES	
	Saskatchewan	Prairie Provinces	Saskatchewan	Prairie Provinces	Saskatchewan	Prairie Provinces	Saskatchewan	Prairie Provinces
1921........	19,243	38,485						
1926........	26,674	50,136	3,267	5,640				
1931........	43,308	81,659	10,938	21,517	6,019	8,897	38,549	83,044
1936........	42,050	81,657	10,338	21,293	6,420	9,827	39,194	86,152
1941........	54,129	112,624	21,285	43,363	11,202	18,081	33,882	80,745
1944........	61,164	142,833	26,623	54,718	23,939	44,289	44,126	103,915

SOURCES: *Census Reports* of the Dominion Bureau of Statistics and (for 1944 only) H. L. Patterson, *The Farm Machinery Outlook in the Prairie Provinces* (Ottawa, Dominion Department of Agriculture, 1945).

Following the period of rapid mechanization from 1921 to 1931 an actual decline in the number of both tractors and trucks in use on farms in this province took place during the years of drought and depression. In Saskatchewan, as in the other Prairie Provinces, some of the backlog thus created was made up prior to the census of 1941, but wartime limitations on the use of steel and other materials in the production of farm equipment checked the trend of mechanization, prevented normal replacements, and created a further backlog.

That the increases recorded in the number of tractors, motor trucks, combines and other farm machinery between 1936 and 1944 (census statistics for 1946 are not yet available) were insufficient to meet the needs of prairie farmers is clearly shown by estimates of requirements made by the Economics Division of the Dominion Department of Agriculture (Table V).

TABLE V.

Estimated Numbers of Tractors, Motor Trucks and Combines Wanted, Prairie Provinces, 1945-1949 and Later.

Tractors	Manitoba	Saskatchewan	Alberta
1945	8,595	25,472	12,070
1946	2,285	9,054	13,920
1947	1,496	6,343	7,265
1948	2,105	4,083	3,150(1)
1949 or later	18,190	22,941	2,575(2)
Totals	32,671	67,893	38,980
Motor Trucks			
1945	3,361	11,675	2,965
1946	1,847	6,267	6,335
1947	552	3,405	3,145
1948	226	2,848	910(1)
1949 or later	4,382	10,320	1,355(2)
Totals	10,368	34,515	14,710
Combines			
1945	3,945	18,688	3,570
1946	965	5,451	4,710
1947	537	3,280	1,850
1948	323	1,769	910(1)
1949 or later	5,284	10,062	960(2)
Totals	11,054	39,250	12,000

(1) Includes those wanted in 1948 and later. (2) Specific date not given.

SOURCE: Patterson, *op. cit.*, pages 4, 6 and 13.

The very large volume of machinery required in the Prairie Provinces—and particularly in Saskatchewan—indicates the magnitude of the impact of any freight rate increase which if granted would apply on a very large proportion of this machinery. The demand for tractors, motor trucks and combines does not begin to measure total farm machinery requirements. Large numbers of practically all types of implements are badly needed. Table VI summarizes the Saskatchewan requirements as estimated by the Dominion Department of Agriculture survey for the years 1945 to 1949 and later. To the very substantial extent that these requirements remain unfilled at the present time, the cost to the farmer will be directly increased as a result of any freight rate increase.

TABLE VI

Farm Machinery Wanted in Saskatchewan 1945-1949 and Later.

Tractors	67,893	Spring Tooth Harrows	9,701
Combines	39,250	Disc Harrows	46,956
Swathers	13,494	Mowers	48,993
Threshers	11,053	Rakes	42,192
Power Binders	15,843	Ensilage Cutters	2,953
Horse Binders	37,395	Grain Grinders	34,900
Motor Trucks	34,515	Manure Spreaders	5,288
Motor Cars	38,881	Trailers	7,379
Tractor Plows	31,663	Wagons	101,901
Horse Plows	12,391	Stationary Engines	35,666
One-way Discs	54,691	Windmills	7,710
Seeder Attachments	30,190	Potato Diggers	1,052
Grain Seeders	53,232	Cream Separators	47,216
Cultivators	46,394	Grain Cleaners	26,239

SOURCE: Patterson, *op. cit.*, pages 4 to 32.

The increased mechanization of prairie farms has greatly increased the consumption of gasoline. As crude oil must be moved to refineries from the United States and from Turner Valley in Alberta in tank cars the railways have gained substantially in traffic volume as a result of this trend. This is particularly true in Saskatchewan where all crude must be brought in by rail since the province does not enjoy the benefit of pipe line facilities such as exist between Turner Valley and Calgary in Alberta. While a good deal of the refined product is distributed by truck, substantial quantities—especially of oils—are nevertheless moved by rail.

The rail movement of crude petroleum into Saskatchewan for the last 15 years (complete data are not available prior to 1932) is shown in Table VII together with the loadings and unloadings of gasoline and petroleum oils and other petroleum products. The latter figures indicate that a substantial rail movement is involved in the distribution of gasoline and other petroleum products within the province.

TABLE VII.

Railway Loadings and Unloadings of Petroleum and Its Products at Stations in Saskatchewan, 1932 to 1946.

	Crude Petroleum	Gasoline		Petroleum Oils and Other Petroleum Products Except Asphalt and Gasoline	
	Unloaded (tons)	Loaded (tons)	Unloaded (tons)	Loaded (tons)	Unloaded (tons)
1932	241,103	96,700	113,503	62,811	85,983
1933	250,837	89,539	97,023	65,849	75,239
1934	247,194	82,680	102,865	64,439	84,054
1935	221,760	62,909	100,106	60,915	96,254
1936	318,530	85,287	115,054	64,323	76,726
1937	337,783	102,013	115,921	63,585	55,290
1938	441,559	164,374	154,038	75,180	59,172
1939	454,424	100,923	106,562	42,288	42,752
1940	551,348	89,650	95,115	48,275	37,228
1941	600,858	112,146	97,364	71,288	51,265
1942	691,890	142,866	171,049	91,529	86,318
1943	709,561	181,930	238,461	109,409	93,842
1944	907,392	197,523	250,666	86,638	92,293
1945	863,658	178,550	199,436	92,660	116,999
1946	890,559	163,785	217,301	82,090	99,543

Source: *Summary of Monthly Railway Traffic Reports* (Dominion Bureau of Statistics, Ottawa).

The importance of the trend towards greater mechanization on farms is strikingly reflected in statistics on the consumption of non-taxable petroleum fuels in Saskatchewan, (Table VIII).

TABLE VIII.

Consumption of Non-Taxable Petroleum Fuels in Saskatchewan, 1932 to 1946

	Gallons
1932	10,393,525
1933	8,155,449
1934	11,803,825
1935	14,179,721
1936	16,140,633
1937	18,704,278
1938	38,614,900
1939	48,302,415
1940	53,134,632
1941	63,775,021
1942	79,376,237
1943	89,599,373
1944	97,508,822
1945	87,087,704
1946	100,867,707

Source: Taxation Branch, Treasury Department, Province of Saskatchewan.

Saskatchewan Taxation Branch officials estimate that of the total non-taxable petroleum fuels 80 per cent. is used for agricultural purposes, about 10 per cent. by branches of the Dominion Government, and the remaining 10 per cent. by other non-taxable users. While undoubtedly some of the increased consumption during the war was due to increased demands of the National Defence Department it should be noted that the peak year was reached in 1946 after this demand had subsided. An expanding use of petroleum products on Saskatchewan farms is clearly indicated and promises a continuation and expansion of remunerative rail hauls for the railways.

A. THE AGRICULTURAL ECONOMY OF SASKATCHEWAN

The significance of transportation to the agricultural economy of Canada and the nature of some of the resulting problems were stressed by Mr. H. H. Hannam, President of the Canadian Federation of Agriculture, an organization embracing some 400,000 producers, in evidence given at the Ottawa Hearings of the Board in July of this year:

> "The development of specialization and exchange of agricultural products on the basis of the comparative advantages of production in the different areas, is a distinct advantage to all of the areas concerned but gives rise to many of our most difficult agricultural problems. It involves production for a distant and sometimes little known market. It involves unavoidable consideration of the effects on that market growing out of increased or decreased production in other competing areas. It involves a considerable series of problems which grow out of the fixity of such charges as those for railway transportation when farm and central market prices move sharply up or down. Nevertheless, the kind of farming that has now come to be taken for granted is an impossibility except as there is available a cheap and efficient transportation service."[4]

This statement has a special validity for Saskatchewan agriculture—even apart from wheat and other grains, the export freight rates upon which are not at issue in the present application of the railways. An examination of other sections of the agricultural economy of the province such as the livestock, dairy, poultry, forage crop seed and honey producing industries—all of which would have to bear the burden of any increase—will amply illustrate its truth.

The Livestock Industry

Development of the livestock industry in Saskatchewan over the past 40 years has been beset with many difficulties and marked by many reverses but, as Table IX indicates, its significance in the national economy shows a fairly steady growth. Thus there was a slow but steady increase in the number of milch cows in Saskatchewan until 1936, after which severe drought forced heavy liquidation. The increase in the numbers of cattle other than cows was checked by the price collapse in the early nineteen-twenties and again, following a slow and painful recovery, by feed shortages after 1936, although recovering markedly under the stimulus of war prices after 1941.

4 *Presentation of the Canadian Federation of Agriculture to the Board of Transport Commissioners Respecting the Application of the Canadian Railways for an Increase in Freight Rates,* (Ottawa, July, 1947, mimeo.) p. 2.

TABLE IX.

Livestock Population of Canada and Saskatchewan, 1906-1946

	MILCH COWS			CATTLE OTHER THAN MILCH COWS		
	CANADA	SASKATCHEWAN		CANADA	SASKATCHEWAN	
Year	Numbers	Numbers	Percentage of Dominion Total	Numbers	Numbers	Percentage of Dominion Total
1906	2,702,500	112,600	4.2	4,499,100	360,300	8.0
1911	2,645,200	154,600	5.8	3,880,900	479,000	12.3
1916	2,880,600	285,700	9.9	4,618,300	727,300	15.7
1921	3,086,700	349,900	11.3	5,282,800	946,000	17.9
1926	3,373,000	406,000	12.0	4,444,600	754,100	17.0
1931	3,371,900	424,000	12.6	4,601,100	764,900	16.6
1936	3,805,400	564,800	14.8	5,023,600	970,200	19.3
1941	3,623,900	437,700	12.1	4,893,400	803,400	16.4
1946*		399,000			1,100,000	

	HOGS			SHEEP AND LAMBS		
	CANADA	SASKATCHEWAN		CANADA	SASKATCHEWAN	
Year	Numbers	Numbers	Percentage of Dominion Total	Numbers	Numbers	Percentage of Dominion Total
1906	3,378,800	123,900	3.7	2,543,000	121,300	4.8
1911	3,634,800	286,300	7.9	2,174,300	114,200	5.3
1916	3,561,800	530,700	14.9	2,333,900	124,200	5.3
1921	3,324,300	419,700	12.6	3,200,500	194,700	6.1
1926	4,036,700	597,700	14.8	2,829,700	161,800	5.7
1931	4,699,800	949,000	20.2	3,627,100	281,000	7.7
1936	4,135,800	666,800	16.1	3,159,400	342,300	10.8
1941	6,081,400	943,700	15.5	2,840,100	330,000	11.6
1946*		523,300			334,600	

*—Preliminary Census figures for Saskatchewan; comparable figures for Canada not available.

SOURCE: Reports of the Agricultural Division, Dominion Bureau of Statstics, based on census data.

Hog production has been particularly sensitive to changing price relationships and fluctuations in numbers have actually been much more marked from year to year than are revealed in the table. For instance the number of hogs on farms rose to upwards of 1,750,000 in 1943 in the middle of the last prairie intercensal period. Sheep, while far less important than either cattle or hogs tend to show the same general trends as cattle.

The milch cow population of the province is largest in the park areas of eastern and northern Saskatchewan with substantial herds in central Saskatchewan serving the larger centres of Regina and Saskatoon. Except for specialized dairy herds most "milch" cows in the province are dual purpose types, that is they may be used for milk production or beef.

Beef cattle are largely produced on the range lands of south-western Saskatchewan and in the park areas of the eastern and northern parts of the Province. The cattle population is relatively light in the prairie areas where wheat production predominates. Scarcity of water and hazards of feed production make a long term cattle production programme in those areas an uneconomic proposition for most farmers.

Hog production tends to be concentrated in the eastern, north-eastern and northern areas with substantial wartime production in recent years in central Saskatchewan. Under certain price relationships hog production may take place in conjunction with grain growing. Hog production in such areas tends to fluctuate greatly, however, since the nature of the hog production cycle enables farmers to make rapid adjustments in response to price and market relationships.

Sheep and lambs are found largely in south-western, east-central and north-western Saskatchewan.

The regional distribution of livestock in Saskatchewan is indicative of the long-run influence of natural factors on the agricultural economy, while national and international policies and the trend of livestock prices and their relation to grain determine shorter-run production trends.

Commerical livestock marketings originating in Saskatchewan compared with Canada as a whole are shown in Table X. The increasing importance of Saskatchewan in terms of Canada's meat supply both for domestic consumption and for export is clearly indicated. Peak marketings were reached for hogs in 1944 and for cattle in 1945. Since that time there has been a major decline in hog production and a slight falling off in cattle.

TABLE X

Commerical Livestock Marketings in Saskatchewan, 1921-1946

	CATTLE			HOGS		
	CANADA	SASKATCHEWAN		CANADA	SASKATCHEWAN	
Year	Numbers	Numbers	Percentage of Dominion Total	Numbers	Numbers	Percentage of Dominion Total
1921	759,593	93,867	12.4	1,412,280	55,730	3.9
1926	1,052,663	210,904	20.0	2,699,480	278,449	10.3
1931	699,496	136,919	19.6	2,643,372	398,850	15.1
1936	1,282,552	313,101	24.4	3,796,952	570,013	15.0
1941	1,344,794	227,433	16.9	6,224,975	857,084	13.8
1942	1,288,617	252,186	19.6	6,232,087	964,632	15.5
1943	1,243,888	268,662	21.6	7,149,920	1,409,042	19.7
1944	1,528,947	378,907	24.8	8,863,830	1,934,114	21.8
1945	2,021,711	495,195	24.5	5,861,505	942,920	16.1
1946	1,900,768	481,405	25.3	4,465,159	513,828	11.5

SOURCES: *The Origin and Quality of Commercial Livestock Marketed in Canada* and *The Annual Market Review* (Dominion Department of Agriculture, Ottawa).

Saskatchewan marketings of calves, sheep and lambs reflect the same general trend as cattle marketings. In 1921 the province marketed 6,849 calves or 2.5 per cent. of the Dominion total, but by 1945 marketings had risen to 111,194 or 13.4 per cent. of the Dominion total. For sheep and lambs the percentage rose from 4.1 per cent. of the total in 1921 to 13.1 per cent. in 1945.

The development of meat processing in the western provinces is shown in Table XI. Data for British Columbia, Alberta and Saskatchewan were not shown separately prior to 1936. Therefore, in order to preserve comparability, the figures include the Prairie Provinces and British Columbia.

TABLE XI

Inspected Slaughterings, Canada and Four Western Provinces, 1921-1946

	CATTLE			CALVES		
Year	Canada	Four Western Provinces	Percentage of Dominion Total	Canada	Four Western Provinces	Percentage of Dominion Total
1921*	715,313	178,685	25			
1926	739,822	300,169	41	374,175	97,154	26
1931	592,036	232,295	39	371,076	89,438	24
1936	920,229	478,899	52	602,616	260,561	43
1941	1,004,101	434,116	43	719,168	230,863	32
1942	970,315	506,439	52	666,645	218,017	33
1943	1,021,334	585,159	57	594,385	197,768	33
1944	1,354,104	783,448	58	660,556	224,720	34
1945	1,820,127	1,111,361	61	781,817	290,065	37
1946	1,666,310	1,062,172	64	752,817	273,261	36

*—Includes calves

	HOGS			SHEEP AND LAMBS		
Year	Canada	Four Western Provinces	Percentage of Dominion Total	Canada	Four Western Provinces	Percentage of Dominion Total
1921	1,636,389	321,487	20	646,950	147,245	23
1926	2,491,425	885,763	36	545,769	141,638	26
1931	2,242,765	983,857	44	820,891	298,918	36
1936	3,562,534	1,703,899	48	830,975	363,095	44
1941	6,273,851	3,401,225	54	830,963	338,702	41
1942	6,196,850	3,736,705	60	825,288	352,819	43
1943	7,173,550	4,507,656	63	889,269	367,980	41
1944	8,766,441	5,688,376	65	949,096	424,852	45
1945	5,683,727	3,362,358	59	1,169,124	524,032	45
1946	4,253,511	2,085,290	49	1,209,545	558,075	46

SOURCES: *Live Stock Market and Meat Trade Review* and *Annual Market Review* (Dominion Department of Agriculture, Ottawa.)

Livestock slaughterings in Western Canada have increased both in actual numbers and in the proportion which they represent of the Canadian total. From the standpoint of rail transportation, four types of movements are involved, (1) from farm or ranch to eastern markets or for export, (2) from farm or ranch to western packing houses, (3) from western packers to consumers in Western and Eastern Canada and for export, (4) the additional movement of feeder stock to feed lots. The significance of transportation costs to the livestock economy is thus clearly indicated and the implications of any increase in freight rates must be considered, it is submitted, from the standpoint of the future of an important industry in the economy of Canada.

Any increase in the fixed costs of raising and marketing livestock, such as would surely result from an increase in freight rates, would further burden an industry which even under normal conditions is faced with competitive disadvantages and market uncertainties. As has been pointed out by the Saskatchewan Stock Growers' Association [5] range cattle production is carried on in areas distant from available markets leaving the industry particularly vulnerable to problems of transportation.

Livestock and livestock products, unlike most industrial products, cannot be withheld from the market during periods of low prices and producers frequently are forced to sell at a loss. In the drought years of the nineteen-thirties the feed situation became so acute in Saskatchewan that stock growers were forced to liquidate a large proportion of the herds which they had built up with great effort over a long period of years. This represented actual capital disinvestment the extent of which is clearly evident from the greatly reduced marketings immediately following 1937.

A broad appraisal of the position of the cattle producer in the Prairie Provinces offers striking examples of the varied problems and conditions which influence many sections of the agricultural economy.

The ranching areas and bush lands of the Prairie Provinces offer many natural advantages to the raising of large numbers of high quality stock. The limits of production are being slowly but steadily expanded by the conservation and developmental policies of Provincial and Federal Governments. Provincial activities are in the main directed to measures to encourage the building of feed reserves and promote quality stock although incorporation of several co-operative grazing associations has been facilitated under Saskatchewan legislation. Under the Federal Government's Prairie Farm Rehabilitation Act, community pastures have been constructed by reseeding inferior wheat lands to grass, thereby removing areas from uneconomic grain production and facilitating their use for stock raising. Many farmers and ranchers have also taken advantage of the provisions of the P.F.R.A. programme to develop small stock-watering dams to conserve spring run-off and store water. Evidence presented to the Board by the Horse Co-operative Marketing Association indicated the direct contribution to conservation of grazing resources made by their own industry. It was estimated that in one winter period alone surplus horses in the three provinces consumed 500,000 tons of feed. [6]

The cumulative effects of these programmes and policies instituted in the interests of the national as well as the prairie economy are becoming apparent and with the reduction as far as possible of physical and climatic hazards the cattle industry can look forward to a greater measure of productive stability than it has experienced in the past. Nevertheless, all the stabilization efforts of private and public agencies may well prove fruitless if the gains so made are wiped out by a heavy increase in freight charges.

5 See *Brief Presented on Behalf of The Saskatchewan Stock Growers' Association to the Board of Transport Commissioners* (Maple Creek, June, 1947, mimeo.).

6 See *Memorandum of Horse Co-operative Marketing Association Limited, Swift Current, Saskatchewan* (Swift Current, June, 1947, mimeo.).

The potentialities of prairie livestock production were demonstrated in the west during the war years when all previous records were beaten. Some reductions from the high levels were to be expected. Cyclical variations are inherent in livestock trends. Price fluctuations create uncertainties and, as indicated, the relationship of grain and feed prices influence production plans. To the extent that economic factors are favourable to livestock production, the broadening of the base of the agricultural economy is desirable but it is probably true that no single factor would do more to disturb adversely the relationship of the livestock industry to other agricultural activities from the long range viewpoint than an increase in freight rates.

The key position of the Prairie Provinces in the livestock and meat producing industry of Canada has already been indicated and the significance of livestock and livestock products in Canada's trade in World markets is widely recognized.

Much has been said about the geographical advantages and disadvantages of various parts of Canada. It is then, perhaps necessary to emphasize that the geographical position of Saskatchewan's ranching areas is not as unfavourable as many suppose and that transportation disabilities are not a necessary consequence of a mid-continental position. The natural export market for western livestock is the United States, and if barriers to north-south trade had not been imposed and traffic directed east and west, a much greater volume of Canadian cattle would undoubtedly have moved freely into their natural market.

The extent to which cattle marketings have been influenced by national policy, trade agreements, tariffs and embargoes may be seen from Table XII.

TABLE XII.

Exports of Cattle, Calves and Beef from Canada, 1913 to 1946.

Year	CATTLE Gr. Britain	CATTLE U.S.A.	CATTLE Total*	CALVES Gr. Britain	CALVES U.S.A.	CALVES Total*	BEEF Gr. Britain (lbs.)	BEEF U.S.A. (lbs.)	BEEF Total* (lbs.)
1913(1)	9,878	180,383	193,714	....	22,486	22,581	700,230	10,886,414	12,033,735
1914	....	145,722	147,945	....	31,939	31,974	226,298	17,172,462	17,837,045
1915	1,752	179,016	193,352	....	55,860	55,903	11,428,369	10,200,942	29,460,025
1916	....	104,227	106,278	....	60,310	60,343	13,641,731	10,744,009	45,836,492
1917	....	148,077	150,044	....	47,014	47,123	20,975,456	12,059,894	90,647,227
1918	....	200,666	203,481	....	36,594	36,703	94,862,984	25,648,752	127,333,202
1919	159	453,606	467,642	....	78,703	78,848	37,780,253	35,926,610	112,610,237
1920	320	236,642	240,660	....	74,428	74,519	12,158,000	38,768,500	67,028,200
1921(2)	33,053	135,257	174,552	....	57,623	57,695	5,629,300	25,308,300	32,143,200
1922(3)	18,475	189,760	212,772	....	27,720	27,955	6,231,900	18,583,600	26,340,900
1923(4)	57,672	96,873	160,771	....	24,074	24,219	6,232,400	13,087,300	22,772,000
1924	79,435	97,847	183,242	....	35,178	35,359	6,364,600	9,808,200	23,206,800
1925	110,868	86,748	204,378	....	62,313	62,814	10,423,400	10,105,200	34,627,700
1926	79,985	92,962	176,343	....	65,333	65,625	3,517,100	16,242,000	27,233,800
1927	8,263	204,336	216,209	....	78,668	79,065	580,800	51,473,400	56,741,800
1928	405	166,469	169,276	....	75,885	76,152	500	44,698,700	47,136,700
1929	....	160,103	162,632	....	90,433	90,873	6,100	28,666,300	31,066,400
1930	5,400	19,483	27,554	....	35,233	35,768	243,000	4,987,900	8,086,600
1931(5)	27,149	9,159	40,217	....	15,430	16,069	524,000	352,100	3,756,700
1932(6)	16,568	9,010	28,464	....	3,855	4,821	1,478,500	380,700	4,466,400
1933	50,317	5,686	59,158	....	48	976	7,173,300	169,700	10,007,700
1934	53,852	6,341	63,673	101	226	1,302	11,494,100	379,000	15,092,200
1935	6,704	102,934	112,771	....	20,567	21,587	3,817,500	5,985,700	13,512,600
1936(7)	38,495	191,149	233,631	....	50,541	51,783	6,401,400	1,851,800	12,416,300
1937	9,610	208,552	222,112	....	98,426	99,648	9,737,900	3,005,900	17,265,200
1938	27,307	98,408	129,807	....	48,347	49,414	2,047,900	1,230,700	5,692,400
1939(8)	4,274	201,065	208,791	....	83,398	84,634	869,300	793,700	4,358,200
1940	....	153,856	157,264	....	75,658	76,517	....	496,500	3,703,000
1941	....	189,896	193,241	....	60,677	60,886	....	888,000	7,481,000
1942	....	158,175	161,406	....	54,235	54,389	....	4,310,900	15,443,300
1943	....	56,666x	60,385	....	1,929	2,340	385,600	5,400	12,572,500
1944(9)	1	52,123x	57,812	....	1,152	1,361	98,080,000	700	106,143,600
1945	4•	68,719x	77,301	....	1,939	2,269	184,377,700	66,200	193,534,300
1946	359	95,154x	103,214	....	1,202	1,404	123,787,400	10,000	134,671,200

(1)—1913 to 1920: livestock exports to U.S. free of duty;
(2)—1921: U.S. tariff of 30% imposed;
(3)—1922: Fordney-McCumber Tariff imposed (over 1050 lb. —2c; under 1050 lb. —1½c per lb.);
(4)—1923: British embargo on Canadian livestock removed;
(5)—1931: Hawley-Smoot Tariff imposed (over 700 lb. —3c; under 700 lb. —2½c per lb.);
(6)—1932: Ottawa Agreements;
(7)—1936: U.S.-Canada Agreement (over 700 lb.—2c; 175-700 lb.—2½c per lb.);
(8)—1939: Canada-U.S. Agreement (200-699 lb.- 2½c; all others—1½c per lb.);
(9)—1944:—U.S.-Mexico Agreement (all classes, 1½c. Rates apply during "state of national emergency" in United States. Quantity subject to quota restrictions when national emergency removed).

*—Totals include exports to countries not specified.
x—Export figures are for purebred stock and dairy cattle. Embargo placed on export of beef cattle and calves from Canada, September, 1942 and continued to date.

SOURCES: *Live Stock Market and Meat Trade Review* and *Annual Market Review* (Dominion Department of Agriculture, Ottawa).

Prices for cattle on the Canadian market have tended to be stronger during periods of high exports to the United States and in periods of rising prices restrictions on exports have been reflected in wide spreads between Canadian and United States market prices. Particular attention should be drawn to the period from September, 1942 to the present. For the whole of this five-year period there has been an embargo on the export of commercial beef cattle and calves from Canada to the United States. Exports of purebred cattle and cattle for dairy purposes were, however, unrestricted and 95,154 went to the United States in the last calendar year. It is significant, however, to note that the Dominion Department of Agriculture reported recently that "Dairy cattle exports continued to originate largely in Ontario and Quebec, with fairly substantial contributions from the Maritime Provinces." [7] The cattle growers of Western Canada have thus been effectively barred from their natural market for upwards of five years. The impact of government policy on the producer in terms of lower returns than he would otherwise have received is sharply emphasized by a comparison of prices ruling on the Winnipeg, Toronto and Chicago markets (Table XIII).

TABLE XIII

Average Prices of Good Steers at Winnipeg, Toronto and Chicago, 1941 to 1946

Year	Winnipeg Steers over 1050 lb. (per cwt.)	Toronto Steers over 1050 lb. (per cwt.)	Chicago Steers 1200-1500 lb. (per cwt.)
1941	$ 8.21	$ 8.90	$ 11.35
1942	9.54	10.39	14.10
1943	11.10	12.00	15.85
1944	11.15	12.00	16.60
1945	11.40	12.20	16.90
1946	12.05	13.05	21.30

Source: *Annual Market Review* (Dominion Department of Agriculture, Ottawa).

The average spread between Winnipeg and Chicago in 1941, before the ban on Canadian beef cattle exports to the United States, was $3.14 per cwt. For 1942, although the export ban did not go into effect until September, the average spread for the year increased to $4.56. For 1943 the spread between Winnipeg and Chicago prices widened to $4.75; for 1944, to $5.45; for 1945, to $5.50; and for 1946, to $9.25.

The export of live hogs has shown extremely wide fluctuations, as will be seen from Table XIV. However, the export trade in bacon and hams particularly has been an important one both from the standpoint of the hog producer and of the national economy. During the war years Canada supplied a large volume of bacon to the British market and it is highly desirable in the national interest that we should retain this market in peacetime. There has already been a marked decline in exports and in view of the long rail haul to seaboard any increased burden resulting from higher freight rates will further discourage production for the export market.

[7] *Annual Market Review, 1946* (Ottawa, Dominion Department of Agriculture, 1947) p. 4.

The impact of freight rates on producer returns was illustrated very clearly in the Brief presented by Saskatchewan Co-operative Producers Limited at the Regina Hearings of the Board. [8] The following examples of actual shipments, taken from evidence given by Mr. G. W. Robertson, Secretary of the organization, indicate that a number of related charges are also involved in the movement of livestock and as the Brief points out,

> "On any particular shipment these charges do not appear large but their cumulative effect is important. On the bulk of Saskatchewan shipments it would seem that these incidental charges make up about one-sixth of total livestock shipping costs. While some of these charges may not involve actual payments to the railroad, general prices for such services as feed or unloading and reloading will almost certainly be guided by railway practice.
>
> EXAMPLE I
>
> Carlot of 39 cattle, shipped from Crane Valley, Saskatchewan, to Toronto, Ontario.
>
> The rate per hundred pounds is $1.09. Number of tariff—C.T.C. 448.
>
> Actual weight for freight—21,430 (Carlot minimum 20,000 pounds). No stop-overs.

Freight charge on 21,430 lbs. at $1.09	$233.59
Cleaning of car	.75
Sanding of car	1.00
Diversion	3.00
Feed enroute (estimate $18.50)	
Unloading and Reloading ($7.00)	
Total Freight Charge	$238.34

> An increase of 30 per cent. will be $71.50 on the railway charge.
>
> EXAMPLE II
>
> Carlot of 25 cattle shipped from Greenstreet, Saskatchewan, to St. Boniface, Manitoba—a distance of 706 miles.
>
> Rate per hundred pounds 48 cents. Number of tariff—C.T.C. No. W. 3863.
>
> Actual weight for freight 26,900 lbs. (Carlot minimum 20,000 lbs.)

Freight charge on 26,900 lbs. at 48c. per cwt	$129.12
Cleaning of car	.75
Sanding	1.00
Feed enroute ($12.25—not considered railway charge)	
Unloading and re-loading ($3.00—not considered railway charge)	
Total Freight Charge	$130.87

> Increase of 30 per cent. on $130.87 would be $39.26.

[8] See *Submission of Saskatchewan Co-operative Producers Limited to the Board of Transport Commissioners* (Regina, June, 1947, mimeo.).

EXAMPLE IV

Carlot of 88 hogs shipped from Scotsguard, Saskatchewan to Moose Jaw, Saskatchewan,—a distance of 171 miles.

Rate per hundred pounds—23c. Number of tariff—C.T.C. No. W3863

Actual weight for freight 17,680 lbs. (Carlot minimum 16,000 lbs.)

Freight charge on 17,680 lbs. at 23c.	$ 40.66
Cleaning of car	.75
Unloading $1.00 (not railway charge)	
Total Freight Charges	$ 41.41

Increase of 30 per cent on $41.41 would be $12.42."

Discussing the significance of these increases the Brief went on to declare:

"At first glance it may appear that the price increases which will be involved are not large, especially when related to the individual animal. . . .These apparently minor tariff increases, multiplied several hundred-fold on all the commodities passing in and out of Western Canada, have collectively an importance and effect which is not properly realized if an observer considers one article alone.

"The true significance of this proposed increase in fixed costs can be better realized if shipping costs are compared to the value of the product transported.

"If we consider the history of livestock prices over the past decade, the reasons why farmers view any increase in shipping costs with special disfavour become obvious. In the foregoing example of cattle shipped from Greenstreet, Saskatchewan, to St. Boniface, Manitoba, (Example II) we will consider the likely or possible value of the animals being shipped.

"Twenty-five cattle weighed 26,900 pounds or an average of 1,076 pounds per head.

"A "good" steer weighing 1,075 pounds at St. Boniface would, at average prices applying on such animals during recent years, have been worth the following amounts. You will note the percentage of the value of the steer which would be paid out in freight charges, both at present rates and at the proposed increased rate."

An extension of the statistics given in the above Brief, with minor mathematical corrections, appears in Table XV to indicate the relationship between the price of and the freight on certain grades of livestock moving to the Winnipeg market. The heavy burden of present freight charges in years of low cattle prices is shown together with the increased percentage that would be absorbed in freight charges if the proposed rate increases were granted.

TABLE XIV

Exports of Hogs, Bacon and Hams, and Pork from Canada, 1913 to 1946

(Totals include exports to countries not specified)

Year	HOGS Gr. Britain	HOGS U.S.A.	HOGS Total	BACON AND HAMS Gr. Britain (lbs.)	BACON AND HAMS U.S.A. (lbs.)	BACON AND HAMS Total (lbs.)	PORK Gr. Britain (lbs.)	PORK U.S.A. (lbs.)	PORK Total (lbs.)
1913	....	3,162	3,694	27,351,848	99,515	27,514,266	4,228	372,636	876,143
1914	....	214,709	214,989	48,490,701	12,828,474	61,496,033	1,988,344	14,796,587	17,045,270
1915	....	62,285	62,763	137,421,044	2,264,233	140,242,888	10,850,596	3,677,097	15,197,566
1916	....	1,191	1,527	197,811,201	183,260	198,483,276	11,667,684	1,069,663	12,904,236
1917	....	14,192	14,894	216,568,087	650,407	219,464,343	9,179,747	2,009,481	12,070,115
1918	....	7,596	8,184	119,577,246	1,322,297	121,642,555	33,300,576	2,251,545	35,882,760
1919	....	28,887	29,542	240,729,586	2,942,707	245,289,578	1,385,590	3,742,018	6,774,030
1920	....	528	1,399	104,185,400	664,800	105,243,300	598,700	1,387,800	4,121,000
1921	....	2,479	3,154	101,726,000	219,300	103,123,000	164,600	594,000	2,970,000
1922	....	1,658	2,338	98,384,000	154,600	99,141,100	395,700	609,000	1,680,900
1923	....	329	1,554	99,230,100	282,400	100,304,800	2,072,000	709,000	3,342,100
1924	....	26,395	28,197	111,968,800	715,500	113,395,700	6,270,300	5,567,200	14,754,300
1925	....	87,594	89,323	130,503,700	1,277,600	132,522,900	7,909,600	7,014,300	17,286,400
1926	1,412	82,956	85,972	90,843,600	1,596,800	93,185,000	6,536,300	8,233,700	16,798,400
1927	....	194,657	197,106	53,059,100	4,162,500	58,011,800	6,823,900	15,523,500	24,569,900
1928	4	20,661	23,263	37,078,600	3,489,200	41,339,300	1,879,100	7,393,100	11,014,800
1929	....	2,018	3,942	25,822,900	2,333,800	28,772,700	4,040,600	3,632,300	10,184,700
1930	....	137	2,324	13,011,400	1,347,100	14,795,600	1,585,400	1,486,200	5,679,800
1931	....	1,402	3,911	10,961,700	1,173,900	12,775,200	859,800	1,249,000	4,763,200
1932	....	1,660	5,598	30,693,400	1,495,600	35,820,400	4,195,700	2,812,300	10,240,800
1933	....	99	6,031	71,524,700	868,500	73,297,200	2,116,400	882,600	6,005,400
1934	....	1,009	4,602	119,707,600	394,100	120,410,200	1,277,200	156,300	3,330,000
1935	....	14,999	19,424	124,327,900	392,000	125,337,500	512,800	3,866,500	7,097,300
1936	....	69,527	76,488	154,768,800	2,133,200	158,049,600	720,300	11,464,500	16,443,200
1937	....	75,802	82,863	192,058,700	2,337,000	195,616,900	942,600	17,368,000	23,524,600
1938	....	260	5,500	169,463,600	663,300	170,837,400	942,100	2,401,700	7,656,400
1939	....	124	5,826	186,473,000	550,900	187,824,500	526,300	2,330,500	7,206,400
1940	....	265	7,203	344,147,100	382,200	345,604,200	124,900	3,182,900	7,705,000
1941	....	33,867	37,210	460,800,200	1,042,600	464,614,000	....	10,272,900	17,911,800
1942	....	170	5,999	524,951,900	61,300	528,193,800	....	21,400	9,729,500
1943	....	520	9,326	560,304,800	....	562,961,100	14,912,400	3,700	25,102,600
1944	....	241	9,739	692,310,300	....	695,757,400	10,375,100	....	22,707,200
1945	....	781	9,217	446,069,300	....	449,834,600	4,500	300	12,851,900
1946	....	1,628	7,693	286,029,100	....	289,291,600	....	900	9,137,700

SOURCES: *Live Stock Market and Meat Trade Review* and *Annual Market Review* (Dominion Department of Agriculture, Ottawa).

The Brief points out that the proportion of so-called "good" steers to the total number of cattle sold tends to decline during years of poor crops when insufficient feed for proper finishing is available. At all times large numbers of "medium" steers and "medium" cows are marketed taking, of course, the same freight charges per hundred weight as "good" steers but with a much larger percentage of the value of the animal absorbed in freight charges and a very much smaller net return to the producer. Thus, the proportion of the value of a "good" steer at Winnipeg paid in freight ranged from 13.1 per cent. in 1933 to 4.0 per cent. in 1946 while on "medium" cows it varied from 30.4 per cent. in 1933 to 6.0 per cent. in 1946.

On the basis of the history of the western livestock industry the Province of Saskatchewan urges that the reasons which led railway officials to maintain the rate structure on livestock during the past are equally valid for the future. Progress has been made and is being made towards greater productive stability but market outlets and prices cannot be predicted. It is reasonable to expect that problems will continue, from time to time, to bring periods of difficulty to the industry which a freight rate increase would only accentuate and might actually help to precipitate.

Efforts to estimate a total freight bill arising from the movement of the products of any one industry from a given area present formidable difficulties. However, the Co-operative Producers placed in evidence certain figures which indicated that, without considering the miscellaneous charges, freight on primary shipments alone of cattle, calves, hogs, sheep and lambs to stockyards and packing plants approximated $1,457,000 in 1943 and $1,599,000 in 1945. A 30 per cent increase would have added $437,000 and $480,000 respectively to freight costs in these years. On this basis the Brief continues:

> "The foregoing is sufficient to show that on this one aspect of livestock shipping, without considering the increase in costs of diversion, stop-overs, cleaning cars, partitions, or any of the various other services involved, all of which are to increase 30 per cent., Saskatchewan farmers are asked to pay nearly half a million dollars more in direct freight.
>
> "It must be emphasized, however, that the direct freight charges referred to up to this point, represent only a minor part of the total shipping costs which must be paid by the producer in the marketing of his livestock. Saskatchewan abattoirs have estimated that their outgoing freight bill on livestock products bears a ratio to the incoming freight on live animals of approximately 6:1. Indeed this ratio varies. At times it is as high as 8:1 depending on where the products are being shipped. On plants doing considerable slaughter for local use it has been estimated as low as 4:1 at certain periods.
>
> "It is conceded that the ratio of outgoing freight to incoming freight at St. Boniface plants will be narrower than in Saskatchewan due to the lengthening of the live animal haul, but even so, a ratio of 4:1 for all the movement of livestock off Saskatchewan farms appears moderate and conservative.

TABLE XV
Cattle Prices and Relationships of Present and Proposed Freight Charges to the Value of Cattle, 1930 to 1946

Year	Winnipeg Price (per cwt.) $	Market value of 1,075 pound "Good" Steer $	Percentage of Value Paid in Freight Charges %	Percentage of Value Paid If Freight Charges Increased %
1930	6.98	75.03	6.9	8.9
1931	5.45	58.59	8.8	11.4
1932	4.87	52.35	9.9	12.7
1933	3.67	39.45	13.1	16.9
1934	4.16	44.72	11.5	14.9
1935	5.20	55.90	9.2	11.9
1936	4.54	48.80	10.6	13.7
1937	6.25	67.19	7.7	9.9
1938	5.29	56.87	9.1	11.7
1939	6.19	66.54	7.8	10.0
1940	6.92	74.39	6.9	9.0
1941	8.21	88.26	5.8	7.6
1942	9.54	102.55	5.0	6.5
1943	11.09	119.22	4.3	5.6
1944	11.13	119.65	4.3	5.6
1945	11.40	122.55	4.2	5.4
1946	12.05	129.54	4.0	5.1

Year	Winnipeg Price (per cwt.) $	Market value of 1,075 pound "Medium" Steer $	Percentage of Value Paid in Freight Charges %	Percentage of Value Paid If Freight Charges Increased %
1930	5.69	61.17	8.4	10.9
1931	4.41	47.41	10.9	14.1
1932	3.49	37.52	13.8	17.8
1933	2.67	28.70	18.0	23.2
1934	2.94	31.60	16.3	21.1
1935	3.86	41.49	12.4	16.1
1936	3.71	39.88	12.9	16.7
1937	4.92	52.89	9.8	12.6
1938	4.48	48.16	10.7	13.8
1939	5.39	57.94	8.9	11.5
1940	6.26	67.29	7.7	9.9
1941	7.47	80.30	6.4	8.3
1942	8.64	92.88	5.6	7.2
1943	10.15	109.11	4.7	6.1
1944	10.01	107.61	4.8	6.2
1945	10.00	107.50	4.8	6.2
1946	10.75	115.56	4.5	5.8

Year	Winnipeg Price (per cwt.) $	Market value of 1,075 pound "Medium" Cow $	Percentage of Value Paid in Freight Charges %	Percentage of Value Paid If Freight Charges Increased %
1930	4.24	45.58	11.3	14.6
1931	2.62	28.16	18.3	23.7
1932	2.06	22.14	23.3	30.1
1933	1.58	16.98	30.4	39.3
1934	1.74	18.70	27.6	35.7
1935	2.30	24.72	20.9	27.0
1936	2.27	24.40	21.1	27.3
1937	3.08	33.11	15.6	20.1
1938	3.06	32.89	15.7	20.3
1939	3.84	41.28	12.5	16.2
1940	4.12	44.29	11.7	15.1
1941	5.05	54.29	9.5	12.3
1942	6.66	71.59	7.2	9.3
1943	7.56	81.27	6.3	8.2
1944	7.13	76.65	6.7	8.7
1945	7.30	78.47	6.6	8.5
1946	7.95	85.46	6.0	7.8

SOURCE: Based on *Submission of Saskatchewan Co-operative Producers Limited, op. cit.*

"When we apply this ratio to the marketing of livestock in this province in 1943 and 1945, we find that the total freight charges carried by the livestock industry are not limited to the amount of $1,500,000.00, but actually reach a total figure of approximately $7,500,000.00 each year. Further we find that, on this basis, a thirty per cent. increase would amount to $2,250,000.00,—or a total impost of close to $10,000,000.00 to be carried by this one segment of our agricultural economy. It must be remembered that the only source from which this large amount can come is from the value of the livestock shipped. It is a fixed charge against farm income which the producers alone must pay.

"It may be suggested that livestock shipments in 1943 and 1945 were unusual. The fact remains however that the increases being sought will be fixed charges, and even if livestock shipments from Saskatchewan are reduced in the future, the charges per animal and per carlot will be increased, and these increases will fall upon a section of the economy which both by the nature and the size of its income, is ill-fitted to bear them.

"Under seaboard contracts and price ceilings these increased charges are wholly passed back to the primary producer. It is submitted that the proposed increase can have only harmful effects upon the livestock industry and by discouraging diversification of agriculture would strike directly at the stability and welfare of the entire Saskatchewan economy."

The contention that the producer will be forced to bear the burden of increased freight charges on both primary livestock movements and on the movement of the finished product to markets is strongly supported by the evidence of Intercontinental Packers given at Regina:[9]

"...freight costs in relation to livestock slaughtered may vary in different plants throughout the Province, due to the type of business each individual plant might do. A large percentage of our business in the period mentioned [1946] was export to England on which we pay freight to seaboard. If any substantial part of this product were to be marketed in the domestic market in Eastern Canada, the freight cost would be increased, due to the fact that the domestic rate is somewhat higher than the through export rate. It is only natural that an enterprise engaged largely in domestic business in the locality close to its plant would have a lower freight cost, due to the avoidance of long hauls. However, livestock production in Saskatchewan, in comparison to its population, is such that a comparatively large volume must either be exported to other countries or other parts of Canada. The handling costs govern the net return of the product, which in turn, governs the amount which can be paid for the livestock."

Reference has been made during this inquiry and particularly at regional hearings to truck competition in the west especially in the movement of livestock. Table

[9] See *Brief Presented by Intercontinental Packers Limited, Saskatoon, Sask., to the Board of Transport Commissioners* (Saskatoon, June, 1947, mimeo.) pages 2 and 3.

XVI shows the very small proportion of cattle and hogs (the proportions were even smaller for calves and lambs) moving to market by truck in Saskatchewan compared with any of the other important livestock producing provinces. Thus in the heavy movement of cattle to stockyards Saskatchewan sends a greater number by rail than any other province while less than one-quarter move by truck—the lowest proportion of any province in Canada except British Columbia. The movement of cattle direct to packing plants is much less important in terms of total volume but again Saskatchewan's proportion was much lower than any of the three provinces of Manitoba, Ontario or Quebec and only slightly higher in proportion—but lower in volume—than Alberta. The comparisons in the case of hogs are extremely interesting. The movement of hogs to stockyards in Saskatchewan is not an important one in terms of volume. The figures show that by far the greater number of hogs are marketed at packing plants and on this movement Saskatchewan shipped both the smallest volume and the smallest proportion by truck of any important hog producing province in Canada.

TABLE XVI

Deliveries of Live Stock to Stock Yards and Packing Plants by Railroad and Truck, 1946

CATTLE

Province of Origin	To Yards			To Plants		
	By R.R. Numbers	By Truck Numbers	By Truck Per cent.	By R.R. Numbers	By Truck Numbers	By Truck Per cent.
British Columbia	10,951	1,471	11.84	35,587	10,182	22.24
Alberta	124,408	174,476	58.37	128,849	65,887	33.83
Saskatchewan	266,373	87,937	24.81	79,727	47,287	37.22
Manitoba	75,803	68,683	47.53	24,459	58,419	70.48
Ontario	174,833	135,493	43.66	55,268	110,501	66.65
Quebec	17,430	26,701	60.50	8,028	20,334	71.72
New Brunswick	1,639	....	....	272	7,315	96.54
Nova Scotia	83	....	....	3,014	186	5.81
Prince Edward Island	48	....	....	4,222	1,114	26.38
TOTAL	671,568	494,761	42.42	339,426	321,225	48.62

HOGS

Province of Origin	To Yards			To Plants		
	By R.R. Numbers	By Truck Numbers	By Truck Per cent.	By R.R. Numbers	By Truck Numbers	By Truck Per cent.
British Columbia	475	189	28.46	16,407	4,944	23.15
Alberta	140,491	13,544	8.79	657,094	439,473	40.07
Saskatchewan	30,841	26,425	46.14	341,245	115,265	25.24
Manitoba	29,070	20,031	40.79	83,725	212,403	71.24
Ontario	108,699	124,065	53.30	521,759	1,014,914	66.04
Quebec	36,543	71,470	66.16	105,063	265,246	71.62
New Brunswick	589	....	....	9,473	15,038	61.35
Nova Scotia	1	....	....	3,241	....	....
Prince Edward Island	....	....	....	32,546	20,467	38.60
TOTAL	346,709	255,724	42.44	1,770,553	2,087,750	54.11

SOURCE: *Annual Market Review, 1946* (Ottawa, Dominion Department of Agriculture, 1947) p. 94.

The railways have pointed out that the present freight rates on livestock are the same as existed in 1918 and that an increase granted in 1920 was voluntarily removed by them—presumably as a recognition of the difficulties with which stock growers were faced and of the fact that continuation of higher rates would have been more than the industry could bear. Those responsible for rate-making policies undoubtedly saw the wisdom—and the necessity—of maintaining the existing rate structure and enjoying a reasonable volume of traffic rather than attempting to impose higher rates which would certainly have seriously restricted the ability of the producer to market his product and which could only have resulted in reduced rail movements. We now suggest that the judgment of the railway executives in that decision was prudent and far-sighted and that the principle is equally sound and equally valid for the immediate future.

The present strong demand and consequent upswing in prices should not be made the occasion to raise rates to levels which would seriously threaten the livestock economy of the western provinces. The basic fallacy inherent in the argument that a period of high volume and favourable prices is the best time to raise freight rates will be dealt with at the conclusion of this section. However, wide fluctuations in the prosperity of the livestock industry indicate the dangers inherent in increasing fixed charges in the form of freight rates in "good times" to continue indefinitely, as a burden upon the industry, in years of weak demand and depressed prices.

Sufficient has been said to indicate some of the problems with which the cattle producer has had to contend, and chief among which have been widely fluctuating prices, long periods of low prices, rapidly changing market conditions in terms of market outlets, and restrictions upon selling in the most favourable market. Such has been the history of the livestock industry of the prairies. To the extent that diversification of agriculture is possible in Saskatchewan it must be brought about through livestock. Efforts of ranchers, farmers, private and co-operative organizations, Provincial and Federal Governments have been directed towards improving the position of the livestock industry and encouraging its development not only for the sake of those directly engaged therein but also to broaden the base of the agricultural economy in the interests of the provinces and of Canada as a whole. The application of higher freight rates would run directly counter to these efforts.

The Dairy Industry

As pointed out in the Brief presented at Regina by the Saskatchewan Dairy Association [10] the problem facing the dairy industry in Saskatchewan can best be illustrated by considering the movement of its most important product, creamery butter, the manufacture of which absorbs approximately 50 per cent. of the milk production of the province.

Table XVII sets out the annual production of creamery butter in Canada and in Saskatchewan, the number of operating creameries in Saskatchewan, and the butter make per creamery in each of the census years from 1921 to 1941 and for each of the last five years.

[10] See *Submission of the Saskatchewan Dairy Association to the Board of Transport Commissioners* (Regina, June, 1947, mimeo.).

TABLE XVII

Creamery Butter Production Canada and Saskatchewan, Number of Creameries and Production Per Creamery in Saskatchewan, 1921 to 1946

	CANADA	SASKATCHEWAN			
Year	Creamery Butter Production lbs.	Creamery Butter Production lbs.	Per cent. of Dominion Total	Creameries in Operation	Production Per Creamery lbs.
1921	128,744,610	7,030,053	5.5	55	127,819
1926	177,209,287	16,629,136	9.4	81	205,298
1931	225,955,246	18,960,352	8.4	68	278,829
1936	250,931,777	24,097,537	9.6	61	395,042
1941	285,848,196	37,126,694	13.0	61	608,634
1942	284,591,372	41,306,186	14.5	62	666,229
1943	311,709,476	47,721,150	15.3	62	769,696
1944	298,777,262	48,264,062	16.2	62	778,453
1945	293,811,000	41,074,000	14.0	63	651,968
1946	271,366,000	37,025,000	13.6	63	587,698

SOURCES: *Statistics of Dairy Factories* and *Statistical Supplement, Monthly Dairy Review* (Dominion Bureau of Statistics, Ottawa).

Saskatchewan was the third largest producer of creamery butter—exceeded only by the Provinces of Ontario and Quebec—in each of the six years 1941 to 1946 inclusive, accounting for nearly 15 per cent. of the output of the Dominion over that period. Yet Ontario and Quebec, contributing over 56 per cent. of the Dominion total in 1946, remain like British Columbia, deficiency areas and their production contributes comparatively little to rail movement. On the other hand the Prairie Provinces, being surplus producers, provide most of the butter shipped by rail with Saskatchewan alone accounting for 32 per cent. of all such rail shipments in the Dominion. The implications of these facts were stressed by the Saskatchewan Dairy Association at the Regina Hearings:

> "Reliable statistical records indicate that during the war years there was approximately as much creamery butter exported from the Province of Saskatchewan as from the other two Prairie Provinces combined, no doubt due to the ratio of population to production but indicating that under present conditions the Dairy Industry in the Province of Saskatchewan will be the most adversely affected of any of the provinces through an increase in freight rates. According to the *Summary of Monthly Railway Traffic Reports* for the ten years 1937-1946 inclusive the Province's net butter exports by rail represented, on the average, 59 per cent. of the annual butter make. This does not include L.C.L. or truck shipments. In view of this a reasonable statement *is that over 60 per cent of Saskatchewan's creamery butter make must find a market outside the provincial boundaries.*"
>
> "Saskatchewan is the central Prairie Province; hence the one most adversely affected by freight rates insofar as Canadian domestic outlets for surplus creamery butter are concerned. Alberta, being closer to the West Coast, is able to utilize that deficiency area as a first outlet for their surplus production. Mani-

toba is in a similar position in relation to the Eastern deficiency area. The Dairy Industry in Saskatchewan under all circumstances is constantly in competition with one of these two provinces seeking outlets for their surplus creamery butter and under normal circumstances continuously in competition with both. . . .

"The division in freight rates as between East and West on the Prairies approximates the Manitoba-Saskatchewan boundary, indicating that from the standpoint of shipping costs all creameries located in the Province of Saskatchewan may more advantageously ship their surplus creamery butter production to the west coast. However, the butter deficiency in that area is not sufficient to absorb the entire production of Alberta and Saskatchewan; hence the balance from Saskatchewan must move East, and at higher rates than the maximum payable by any of the dairies or creameries located in the Province of Manitoba.

"This situation under normal production and distribution circumstances results in approximately one-third of Saskatchewan's creamery butter production being marketed on the West Coast and because of more favourable freight rates the Western Saskatchewan creameries enjoy that outlet. The remaining two-thirds of the creameries in Saskatchewan, involving the area from north to south lying East of Saskatoon are in the position of having to seek markets in Eastern Canada despite their obvious freight handicap compared with Manitoba plants.

"Under normal circumstances the Dairy Industry of Manitoba has only one market for surplus products. The same is true of Alberta. This is not so of Saskatchewan where ⅓ of the cream must be purchased in competition with Alberta plants which enjoy almost ½ cent freight advantage to the Pacific Coast and the remaining ⅔ in competition with Manitoba operators enjoying a similar freight advantage to the Eastern markets."

It is quite clear from the evidence that in supplying the deficiency areas in the eastern provinces and British Columbia Saskatchewan's surplus butter normally moves longer distances and at higher rates than that of other surplus producers. Consequently the apex of the freight rate structure insofar as that important foodstuff is concerned is to be found in Saskatchewan, shifting back and forth across the province as the relative levels of demand vary between the eastern provinces and British Columbia. An examination of freight rates to the Pacific Coast and Toronto and Montreal contained in the respective Briefs of the Manitoba, Saskatchewan and Alberta Dairy Associations, taking into consideration the markets supplied by each of the provinces, substantiates this contention.

Other factors, however, operate to place the dairy industry of Saskatchewan at a still further disadvantage in the matter of freight costs compared to other producers in other provinces. Butter boxes, according to the evidence, come principally from the province of Alberta; fuel, another important item, also comes in large measure from Alberta; salt largely from Goderich, Ontario. Glass bottles for the distribution of fluid milk are imported from Redcliff, Alberta, while sugar, important in the manufacture of ice cream, is obtained from Alberta, British Columbia and Eastern

Canada. To the extent that these items are imported from provinces with whom Saskatchewan must compete, this province is at a further competitive disadvantage.

It is, therefore, abundantly clear that the dairy industry in Saskatchewan operates under the greatest freight handicaps of any producing area in Canada and, consequently, that the application of a 30 per cent. increase in rates would bear most heavily on the industry in this province.

The Poultry Industry

In considering the possible effects of the proposed 30 per cent. freight rate increase on the Saskatchewan poultry industry it is desirable to indicate the industry's relative position in the agricultural life of the province and in the poultry production of the Dominion.

Table XVIII gives the poultry population for Canada and for Saskatchewan for the Dominion and Prairie census years over the past quarter of a century. In 1946 Saskatchewan led the Dominion in the production of turkeys and was second only to Ontario in total poultry population.

TABLE XVIII

Numbers of Poultry in Canada and in Saskatchewan, 1921 to 1946

	Canada	Saskatchewan				
Year	All Poultry	Hens and Young Stock	Turkeys	Geese and Ducks	All Poultry	Percentage of Dominion Total
1921	43,347,200	7,474,024	235,448	148,356	7,857,828	18
1926	50,108,500	8,380,444	563,363	236,867	9,180,674	18
1931	65,152,600	10,660,031	624,591	230,507	11,515,129	18
1936	59,339,400	8,862,326	587,391	185,091	9,634,808	16
1941	63,470,600	9,731,038	991,731	157,982	10,880,751	17
1946*	....	10,599,228	596,978	136,457	11,332,663	....

*Preliminary census figures for Saskatchewan; comparable figures for Canada not available.

Sources: *Census Reports* and *Monthly Bulletin of Agricultural Statistics,* Dominion Bureau of Statistics, Ottawa.

Saskatchewan's production of poultry products is of great importance in Canada's efforts to fill export commitments. Her interior position, however, places producers in this province at a considerable disadvantage compared with producers in the east, and consequently production is extremely sensitive to changing conditions. Eggs inspected for shipment out of Saskatchewan totalled over 20 million dozens in 1945 but declined to about 11 million in 1946, while poultry meat inspected for shipment amounted to about eight million pounds in 1945 and slightly more than seven million in 1946.

Estimated gross cash income from the sale of poultry and eggs in Saskatchewan in 1946 was $23 millions (as compared with about $56 millions for cattle and calves, about $19 millions for hogs and about $20 millions for dairy products).

Natural and climatic conditions in Saskatchewan are, on balance, favourable to the development of the poultry industry with long hours of sunshine and an abundance of clean soil for ranging young stock. However, many lines of equipment, such as incubators, must be imported from Eastern Canada or the United States. Imports of such equipment have not kept pace with poultry production and the backlog is now heavy.

Feeding problems in Saskatchewan are by no means simple. Large producers, who are responsible for a great portion of the eggs and poultry meat shipped out of the province, use specialized chick starter, growing mash, laying mash or breeding mash, such as are mixed and ground by commercial feed dealers. It may be admitted that collection of the feeds by produce dealers presents less difficulty than in a province like British Columbia insofar as assemblage of cereal grains is concerned, but various other ingredients of the special poultry feeds have to be brought long distances—such as fish meal from British Columbia. Distribution of these feeds, essential to quality products, from a few distributing centres to all parts of the province also involves substantial additional costs for transportation.

Eggs and poultry meat are collected in Saskatchewan from a wider production area than in any other province. The result is that Saskatchewan has a special problem in assemblage of products at car-loading points. A large number of farmers not engaged in the poultry business on a large scale pay disproportionately high charges on express shipments from country points to car-loading points as many shipments of eggs are made in lots of 12 dozen or less but the same minimum charge applies on these small shipments as on lots of 30 dozen. There are not more than 24 points in the province from which carloads of eggs can be shipped.

In marketing surplus eggs from farms, the poultry industry must face the fact that, being non-industrial, this province has no large consuming centres such as Montreal, Toronto or Vancouver. Vancouver does not take any Saskatchewan eggs and very little poultry meat with the result that most of the surplus has to be shipped east either for domestic consumption or for export. Saskatchewan is in competition with producers closer to ultimate markets whose fixed costs in freight are substantially lower with the result that her competitive position deteriorates sharply as prices fall.

The Brief presented by the Saskatchewan Poultry Board at the Regina Hearings illustrates another aspect of the immediate problem:

> "A horizontal increase of 30 per cent. gives the impression that the extra revenue desired by the railways would be equitably collected from all users of the roads. This would be the case, however, only if the various parties concerned started on an equal footing. We cannot admit we would be receiving equitable treatment when an increase of 30 per cent. to a producer at London, Ontario, who ships in Carload lots to Toronto would amount to only 6c per hundredweight, whereas the increase to a Regina producer would amount to 56 cents per hundredweight."[11]

The Canadian export contract with Britain, calling for 83 million dozen eggs per year, prices and markets being guaranteed until the beginning of 1949, furnishes Canada with an opportunity to become firmly established in this market before competition increases from continental suppliers. Failure to supply more than 60 million dozen eggs on the British contract last year would seem to indicate that additional stimulus to increased production—particularly in such areas as Saskatchewan—is required. Any increase in freight rates would clearly operate in the opposite direction.

11 See *Brief Presented on Behalf of the Saskatchewan Poultry Board to the Board of Transport Commissioners* (Regina, June, 1947, mimeo.) pages 8-9.

The Forage Crop Seed Industry

Although production of forage crop seeds is not a major industry in terms of the total agricultural economy of the province, the growing of alfalfa, clovers of various kinds, brome grass, crested wheat grass, timothy, western rye grass, etc., for seed has achieved an extremely important place in the economic life of northern Saskatchewan. The industry is comparatively new but has shown rapid expansion and represents a successful effort to adapt agricultural production to soil and climatic conditions.

Most forage crop producers operate small acreages on northern bush soils for the most part unsuited to the growing of staple crops such as wheat. Such producers consequently depend on these seed crops for the greater part—and in many cases all—of their income. While individual acreages are small, resulting in low per capita income, transportation charges on the product are high, since practically all seeds take fifth class freight rates. Actually freight costs represent by far the largest item involved in the processing, handling and marketing of these specialized crops.

Saskatchewan and Alberta are now recognized as the chief producers of forage crop seeds and both provinces labour under the disability of long rail hauls to their markets. Any increase in freight rates, already considered high, would not only seriously reduce the net income of the producer but would seriously jeopardize the building of a stabilized economy in northern Saskatchewan. Seed producers are contributing not only towards the economic development of the north but with their products make possible effective soil conservation and soil improvement programmes on grain growing land elsewhere in Canada and the United States and even in parts of Europe where forage crop seeds from Saskatchewan are used. Thus any factor which reduces the economic well-being of the producer of forage crop seeds—as a freight rate increase most assuredly would—is a matter of concern not only to him but to the agricultural economy generally.

Opportunities for the growing of specialized crops in the northern part of the province have contributed to the growth of population in that area. While the movement of specialized crops bears a heavy freight rate, a more significant factor from the standpoint of the railways is that this type of production supports a more permanent population of greater density thus promoting a larger volume of traffic of both producer and consumer goods. Should the present development be adversely affected by higher marketing costs the volume of both outward and inward freight would be reduced with a consequent reflection in railway earnings.

No one should be deceived by present relatively favourable prices. Prices now are higher than those which have ruled in the past and some recession must be expected. Although the 1946 alfalfa seed crop brought about 42 cents per pound, f.o.b. shipping point, the 1940 crop brought only 20 cents. Brome grass seed brought about 16 cents per pound f.o.b. shipping point in 1946 as against 7 or 8 cents per pound in 1942. The significance of freight costs, and particularly the added burden of a 30 per cent. increase in years of depressed prices, can readily be seen from Table XIX showing freight rates applicable on the main movements of seed.

TABLE XIX

Examples of Present and Proposed Freight Rates on Forage Crop Seeds in Carload Lots

INWARD MOVEMENT

	Present Rate per 100 lbs.	Proposed Rate per 100 lbs.
	c	c
Meadow Lake to White Fox	51	66
Debden to White Fox	39	51
Hudson Bay Junction to White Fox	60	78
Endeavour to White Fox	65	85
Unity to Moose Jaw	48	62
Baldwinton to Moose Jaw	50	65

OUTWARD MOVEMENT

White Fox to Toronto	$1.68	$2.18
White Fox to St. John, N.B.	1.83	2.38
White Fox to Buffalo, N.Y. Via Emerson, Man. 77c and $1.02	1.79	
(plus 30%=$1.00 and $1.02)		2.02
White Fox to Chicago, Ill. Via Emerson, Man. 77c and 79c	1.56	
(plus 30%=$1.00 and 79c)		1.79
White Fox to New York, N.Y. Via Emerson, Man. 77c and $1.21	1.98	
(plus 30%=$1.00 and $1.21)		2.21
Moose Jaw to Fort Wayne, Ind. Via Portal 36c and 91c	1.27	
(plus 30%=47c and 91c)		1.38

SOURCE: See *Brief of the Saskatchewan Forage Crop Growers' Co-operative Marketing Association, Limited.*

The relationship of export markets and transportation costs was emphasized in the Brief which the Saskatchewan Forage Crop Growers' Co-operative Marketing Association Limited presented at the Regina Hearings:

". . . during the past few years, except during abnormal conditions arising from the war, the United States has been the chief outlet for Canadian forage crop seeds. In some years, especially 1939 and 1940, it was extremely difficult to sell seed in the United States, and it became apparent that if a more general outlet for forage crop seeds was to be obtained, markets would have to be found in Europe.

"These markets were obtained during the war years and should be retained, but it is going to be difficult to do so if any large increase in freight rates is allowed. This is apparent when we consider that from our plant at White Fox, Sask., to the United States border at Emerson, Man., the freight rate (5th class) is 77 cents per 100 pounds. If, however, we ship to Europe by way of St. John, N.B., thus giving the Railway Companies the benefit of an all Canadian haul, the freight rate is $1.83 per 100 pounds. An increase in the freight rate of 30 per cent.

would hit the producer of forage crops much harder where we ship the all Canadian way than by way of the United States."[12]

A 30 per cent. increase on the all-Canadian route rate of $1.83 would mean an additional freight charge of 55 cents per cwt. or over ½ cent per pound raising the present rate to $2.38 per cwt. or about 2.4 cents per pound. Even at present prices this represents a substantial percentage of the price which the producer receives. Under conditions likely to obtain in the future such an increased burden would certainly endanger the Saskatchewan seed grower's European market, with the result that Canadian railways would face the loss of a long haul bulk movement on a substantial part of the traffic they now enjoy.

Honey Production

Honey production, like the growing of forage crop seeds, is not a major industry in Saskatchewan but several hundred beekeepers, operating up to 1,000 colonies each, derive their whole livelihood and more than 11,000 other farmers secure a portion of their income from the industry. Furthermore, as the Brief of the Saskatchewan Honey Producers Co-operative Marketing Association points out, the industry confers certain important collateral benefits in that "Besides their value as producers of honey, bees have an important role as pollinating agents. Abundance of bees is necessary to secure a full set of clover and alfalfa seed."[13] Thus, incidentally, bees are of great importance to the forage crop seeds industry.

Even the present freight rate structure bears with particular severity on the honey producers of Saskatchewan and should an increase be granted in the manner and amount requested by the railways the resulting charges would, according to the most responsible and expert testimony, constitute an "intolerable burden." Evidence in support of these contentions was presented to the Board by the Honey Producers' Association at the Regina Hearings.

Honey production is subject to wide seasonal variations, being extremely sensitive to weather and crop conditions in the clover and alfalfa districts. For example, in the disastrous crop year, 1937, Saskatchewan produced only 1,142,000 pounds of honey, while in the following year, with about the same number of colonies, production more than doubled, amounting to 2,794,000 pounds. The peak year in production came in 1945 with 7,328,000 pounds but in 1946 output dropped to 3,953,000 pounds.

12 See *Submission by Saskatchewan Forage Crop Growers' Co-operative Marketing Association Limited to the Board of Transport Commissioners for Canada* (Prince Albert, June, 1947, mimeo.) pages 3 and 4.

13 See *Submission of the Saskatchewan Honey Producers' Co-operative Marketing Association Limited to the Board of Transport Commissioners* (Fort Qu'Appelle, June, 1947, mimeo.) page 2.

TABLE XX

Honey Production Canada and Saskatchewan, Prices and Value of Saskatchewan Honey Crop and Number of Beekeepers, 1926-1946

	CANADA	SASKATCHEWAN				
Year	Production 000 lb.	Production 000 lb.	Per cent of Dominion Total	Price c	Value ($000)	Number of Beekeepers
1926	19,526	170	.9	22	38	870
1931	31,324	610	1.9	12	73	1,470
1936	37,995	2,636	6.9	10	264	3,000
1941	33,221	2,966	8.9	12	348	4,820
1942	28,049	4,947	17.6	12	620	5,760
1943	39,492	5,365	13.6	15	815	7,250
1944	36,264	4,376	12.1	16	700	9,920
1945	33,020	7,328	22.2	17	1,253	11,390
1946	23,975	3,953	16.5	18	712	12,020

SOURCE: *Quarterly Bulletin of Agricultural Statistics* (Dominion Bureau of Statistics, Ottawa).

Variations in production, however, have not provided the only problem with which the industry must contend. Prices tend to go in cycles. For a long period prior to 1943 honey prices were low (see Table XX), never going above 12 cents and falling as low as 8 cents per pound. The problems of producers were further aggravated by the fact that low prices and low production frequently coincided.

It is clear that the relatively favourable showing of the honey producing industry in the past few years is, in large measure, the result of the world shortage of sugar. How much of the improvement can be maintained under normal peacetime conditions is difficult to say. Evidence given by the Honey Producers clearly indicated the implications of the proposed freight rate increase are serious in the extreme:

> "Members received 15.15 cents per pound for their 1946 honey from the Co-operative. The present freight charges on each pound of honey in percentages of the price members received are as follows:
>
> On honey shipped to: Saskatoon .... 6.2% of members' receipts.
> Regina .... 7.1% " " "
> Vancouver .... 14.0% " " "
> Montreal .... 16.2% " " "
>
> A 30% increase in rail rates would raise these percentages as follows:
>
> On honey shipped to: Saskatoon .... 8.6% of members' receipts.
> Regina .... 9.2% " " "
> Vancouver .... 18.2% " " "
> Montreal .... 21.0% " " "

"Honey is currently selling far above its normal price . . . and is expected to return to prewar prices fairly soon. If this is the case, members are unlikely to average better than 9c or 10c per pound for their honey during the next ten years. If the Co-operative members receive 10c for their honey, freight charges at a 30% increase on present rates would then constitute the following percentages of members' receipts for their honey:

On honey shipped to:	Saskatoon	12.2%	of members' receipts.
	Regina	14.0%	" " "
	Vancouver	27.5%	" " "
	Montreal	31.9%	" " " "[14]

It may be noted that, expressed as a percentage of the price received by producers under present rates and 1946 prices, freight on honey shipped to Montreal is 16.2 per cent. If a 30 per cent. increase were granted and, as has been forecast, the price should fall again to 10 cents this percentage would increase to 31.9 per cent. The relative burden represented by freight rates would be practically doubled.

Shipping costs enter into the honey industry at every stage. Wintering of bees is for the most part impractical in Saskatchewan with the result that Saskatchewan beekeepers imported over 60,000 packages of bees in 1946 from Alabama, Mississippi and California on which shipping charges varied from 15 to 40 per cent. of the total cost. The equipment used by Saskatchewan beekeepers comes mostly from outside the province, largely from Ontario or from British Columbia. Containers provide a case in point. These are manufactured in Hamilton and Montreal with inward freight from Montreal to Tisdale amounting to 29 cents per pound capacity or more than one-quarter of a cent per pound of honey.

The Brief of the United Farmers of Canada (Saskatchewan Section) referred to Mr. D. C. Coleman's statement in Saint John, New Brunswick, on November 26, 1946, that "the other principle laid down in British rate-making is that any producing or trading centre is entitled to the advantages of its geographical location and its proximity to markets, but that railway rates cannot fairly be adjusted to relieve such a centre of its geographical disadvantages."[15] If this is a valid argument in support of the freight rate structure as such, the position of the honey producer in Saskatchewan offers an interesting commentary on its application in Canada. Saskatchewan honey, packed at Tisdale, must compete in eastern markets mainly with honey produced in Manitoba and Ontario. Obviously the chief competition in the Ontario market is from the Honey Producers Co-operative at Toronto, and in the Manitoba market from the Manitoba Co-operative Honey Producers at Winnipeg. The competitive position of Saskatchewan producers in their own province is not good for although lower rates exist from Tisdale to all Saskatchewan points than from Toronto, the Manitoba Co-operative has lower rates to many southern Saskatchewan points. Vancouver is the logical market for honey from Saskatchewan and Alberta but, owing to preferential freight rates enjoyed by Manitoba and even more conspicuously by

14 Honey Producers, *op. cit.*

15 See *Submission of United Farmers of Canada (Saskatchewan Section) to the Board of Transport Commissioners for Canada* (Saskatoon, June, 1947, mimeo.) page 2.

Ontario, Saskatchewan producers are unable to benefit from their geographical proximity in relation to the Vancouver market. Alberta is also a substantial producer of honey, sending her surplus to her natural market, Vancouver.

On the Montreal market, taking one-quarter of the Saskatchewan honey crop, Saskatchewan must compete with Ontario honey moving to Montreal from Toronto at 41.5 cents per cwt. compared with $1.64 per cwt. from Tisdale. This is a natural result of Saskatchewan's geographical disadvantage on the eastern market. To be consistent then, this province should be entitled to her geographical proximity to the Vancouver market which takes one-third of the crop, but this advantage is denied in that the freight rate from Tisdale to Vancouver, a distance of 1,300 miles, is as high ($1.35 per cwt. 50,000 lb. car) as the rate from Winnipeg or from Toronto, the latter being 2,700 miles from Vancouver. On the other hand, the freight rate from Lethbridge to Vancouver is 98 cents per cwt. in a 40,000 lb. car and $1.12 in a 24,000 lb. car; the rate from Edmonton to Vancouver is also $1.12 per cwt. in a 24,000 lb. car.

In terms of effective rates paid to move her surplus honey to the consuming centres, therefore, it will be observed that Saskatchewan is required to pay the highest transportation charges of any competing province having regard to the distances involved and the direction in which surplus honey actually moves.

It should be noted that prior to the war Saskatchewan honey enjoyed a good export market in England and honey producers made special efforts to cultivate that market by producing a particularly high quality product. Saskatchewan's geographical handicap in the English market was overcome by the care exercised in producing and grading honey to a high standard. The Saskatchewan honey industry entertains hopes of re-entering this market. It is, however, hardly likely that the English importer even when permitted to purchase honey again will be in a position to absorb any additional freight burdens which may be imposed and consequently the Saskatchewan producer, far removed from the market, would be faced with the alternative of absorbing the increased freight, or losing the market which his efforts built up for him. A 30 per cent. increase in rates might well mean the permanent loss of the English market for his product.

B. THE NON-AGRICULTURAL ECONOMY.

Manufacturing

The average contribution of Saskatchewan to the total gross value of manufacturing production of the Dominion over the past twenty years has been rather less than 2 per cent. (see Table XXI). In 1945 (the latest year for which figures are available) the gross value of manufactured goods in Saskatchewan was approximately $168 millions compared with $248 millions, or slightly over 3 per cent. of the national total, for Alberta and $340 millions, or approximately 4 per cent. of the national total, for Manitoba.

TABLE XXI

Gross Value of Manufacturing Production, Canada and Saskatchewan, 1925-1945

Year	Canada	Saskatchewan
1925	$2,816,864,958	$ 36,733,711
1930	3,280,236,603	56,806,380
1935	2,653,911,209	42,031,223
1939	3,474,783,528	60,650,589
1940	4,529,173,316	76,284,332
1941	6,076,308,124	96,020,975
1942	7,553,794,972	120,256,733
1943	8,732,860,999	152,123,360
1944	9,073,692,519	175,349,234
1945	8,250,368,866	167,688,133

SOURCES: *Canada Year Book* and, for 1945, correspondence with Dominion Statistician, August, 1947.

Table XXII gives the principal statistics, including the gross values of production, of the leading industries of the manufacturing group in Saskatchewan for 1944. It will be noted that the three most important industries—accounting for well over one-half of the total gross value of all manufactures—are concerned with the processing of primary agricultural products. The next largest industry, refining of petroleum products, is also closely related to a mechanized prairie agriculture creating heavy demands for petroleum products of all kinds. The remaining industries merely represent the processing or manufacturing of natural products on a necessarily small scale (as in the case of sawmills) or servicing enterprises (such as bakeries and printing and publishing enterprises) to supply in whole or in part strictly local requirements. The only significant "manufactured" items moving out of Saskatchewan are processed agricultural products, and it is clear that Saskatchewan did not share, in any measurable degree, in the wartime expansion in heavy industry.

TABLE XXII

Manufacturing Industries of the Province of Saskatchewan, 1944

Industry	Establishments No.	Total Employees No.	Total Salaries & Wages $	Cost of Materials Used $	Net Value of Production $	Gross Value of Production $
1. Slaughtering and meat packing	8	2,239	3,545,850	42,257,684	8,797,180	51,312,961
2. Flour and feed mills	45	697	1,104,015	22,157,588	2,343,586	24,831,897
3. Butter and cheese	71	1,457	1,851,787	15,864,578	4,217,227	20,342,971
4. Petroleum products	7	649	1,259,106	15,387,991	3,472,402	19,824,611
5. Sawmills	506	1,848	1,252,670	2,434,429	2,994,874	5,571,572
6. Foods, miscellaneous	6	227	244,931	4,235,958	1,068,135	5,327,444
7. Bread and other bakery products	91	822	982,555	2,210,509	1,986,649	4,325,233
8. Breweries	5	246	451,037	617,597	2,717,288	3,421,397
9. Printing and publishing	112	793	1,256,599	532,737	2,175,531	2,764,542
10. Feeds, stock and poultry	8	96	162,318	1,533,757	261,971	1,819,434
11. Aerated and mineral waters	20	164	253,106	499,852	725,161	1,261,912
12. All other leading industries*	3	1,549	3,172,829	20,389,211	5,777,294	26,972,346
Total, Leading industries	882	10,787	15,536,803	128,121,891	36,537,298	167,776,320
Total, All Industries	1,054	12,361	17,703,103	131,215,017	40,833,333	175,349,234

*Includes: Bags, cotton and jute, smelting, aircraft and iron and steel products, n.e.s.

SOURCES: *Manufacturing Industries of the Prairie Provinces, 1944* (Ottawa, Dominion Bureau of Statistics, 1946).

The past two or three years have witnessed several attempts to broaden the base of industry in the province. This has been reflected in the establishment of a woollen factory, a natural sodium products plant, a plant for processing vegetable oils, a chemurgy plant and a number of local industrial concerns. To such plants in the embryo stage, where costs are naturally high in proportion to returns, a 30 per cent. increase in freight rates would be especially onerous, and their chances of survival would be seriously threatened.

An important addition to the Saskatchewan slaughtering and meat packing industry has been made by the Horse Co-operative Marketing Association at Swift Current which obtained a contract to supply processed meat to the Belgian government in 1945. Since then large contracts have been filled for U.N.R.R.A. This project has been of economic value to Canada as a whole; it has been an instrument in assisting European rehabilitation; and it has permitted the use of surplus horses and the establishment of a sound land use policy in south-western Saskatchewan. An increase of 30 per cent. in freight rates would be a serious blow at this time when inward transportation costs of the plant are naturally bound to increase as the source of supply recedes farther from Swift Current and as the Co-operative faces the competition—both for horses and for markets—of a number of similar plants in the United States.

Mining

The very substantial development of the mining industry in Saskatchewan since 1930 is indicated in Table XXIII, showing the gross annual value of mineral production in Canada by provinces at five year intervals since 1930. Any increase in freight rates might reasonably be expected, as a minimum, to check any further expansion in the industry in this province since the increased costs of mine machinery and of materials used in processing would inhibit new ventures.

TABLE XXIII

Gross Value of Mineral Production in Canada by Provinces, 1930, 1935, 1940 and 1945

Province	1930	1935	1940	1945
Nova Scotia	$ 27,019,367	$ 23,183,128	$ 33,318,587	$ 32,220,659
New Brunswick	2,383,571	2,821,027	3,435,916	4,182,100
Quebec	41,215,220	39,124,696	86,313,491	91,518,120
Ontario	113,530,976	158,934,269	261,483,349	216,541,856
Manitoba	5,453,182	12,052,417	17,828,522	14,429,423
Saskatchewan	2,368,612	3,816,943	11,505,858	22,336,074
Alberta	30,427,742	22,289,681	35,092,337	51,753,237
British Columbia	54,953,320	48,692,050	74,134,485	64,063,842
Yukon & N.W.T.	2,521,588*	1,430,246	6,712,490	1,709,870
Canada	$ 279,873,578	$ 312,344,457	$ 529,825,035	$ 498,755,181

*—Yukon production only.

Source: *Canada Year Book,* and *Preliminary Report on the Mineral Production of Canada, 1946* (Dominion Bureau of Statistics, Ottawa).

Metallic minerals produced in Saskatchewan include gold, silver, copper, zinc, cadmium and selenium. The principal effects of increased freight rates would be felt on refined copper and zinc, which in 1946 were produced in quantities of 61 million and 70.5 million pounds respectively. Apart from coal, the most important non-metallic mineral produced in Saskatchewan is sodium sulphate, which must be transported to distant markets and which will eventually be in competition with the product of European suppliers. Even at present prices, freight charges represent upwards of 50 per cent. of the laid-down cost of this product and any increase in freight rates would seriously affect the competitive position of Saskatchewan producers.

The increase in freight rates on coal requested in the present application of the railways would be particularly burdensome to Saskatchewan's lignite coal industry, the rapid development of which is indicated in Table XXIV.

TABLE XXIV

Production of Lignite Coal in Saskatchewan, 1925, 1930, 1935 and 1940 to 1946 Inclusive

Year	Short Tons
1925	471,965
1930	579,424
1935	921,785
1940	1,097,517
1941	1,322,763
1942	1,301,116
1943	1,665,972
1944	1,372,766
1945	1,532,995
1946	1,508,309

SOURCES: *Canada Year Book* and *Preliminary Report on the Mineral Production of Canada, 1946.* (Ottawa, Dominion Bureau of Statistics, 1947).

Freight charges weigh heavily on the Saskatchewan coal mining industry owing to the low unit value of the coal. The Brief of the Saskatchewan Coal Mine Operators[16] presented at the Regina Hearings points out that two tons of Saskatchewan lignite are required to equal the heating value of one ton of Grade 1 Alberta or British Columbia bituminous coal (see Table XXV).

TABLE XXV

Average Heat Values of Alberta and British Columbia Coals Compared With Saskatchewan Lignite

Alberta & B.C. Coals:	Rough Average B.T.U. Values per lb.	Heat Ratio of Alta.-B.C. Coals to Sask. Lignite
Bituminous Grade 1	14,000	1 : 2
Bituminous Grade 2	13,000	1 : 1.85
Bituminous Grade 3	11,500	1 : 1.64
Sub Bituminous	10,750	1 : 1.53
Lignite	8,750	1 : 1.25
Saskatchewan Lignite	7,000	

SOURCE: See *Coal Statistics of Canada, 1942* (Ottawa, Dominion Bureau of Statistics, 1944) p. 27.

The proposed increase in freight rates, which on most of the coal produced from Saskatchewan mines would amount to 40 cents a ton, would be disproportionately heavy as compared to Alberta coal which could come very much longer distances to Saskatchewan

16 See *Brief of the Saskatchewan Coal Mine Operators on Application of Railway Association of Canada for Increases in Freight Rates to the Board of Transport Commissioners for Canada Presented During Sittings of the Board on June 9, 10, 11, 1947, at Regina, Saskatchewan* (Estevan, June, 1947, mimeo.).

at the same flat increase of 40 cents a ton. This flat increase would disturb the factors governing the present competitive position of Saskatchewan coal with Alberta coal with the result that the area now served by Saskatchewan coal would necessarily be contracted.

Electric Power

Industrial and domestic consumers of electric power in Saskatchewan are in a uniquely vulnerable position in the event of a freight rate increase, since Saskatchewan is the only province which is forced to depend entirely on coal plants for the generation of electric power (see Table XXVI). Every other province is able to produce electricity through water power while in certain parts of Canada, such as southern Alberta, natural gas provides a relatively inexpensive substitute for electricity for heating and lighting purposes. Generation of electricity from coal is normally a much more expensive process than the utilization of water power but in Saskatchewan sources of water power are scattered and remote. Transmission of electric power for country use in the province presents formidable difficulties on account of the great distances between producing plants and the small number of available customers per pole-mile of line. In the Homemakers' Brief presented at the Regina Hearings it was pointed out that in 1941 only one farm home in Saskatchewan out of eighteen had electricity and this figure would include small individual generating plants.

TABLE XXVI

Electric Energy Generated by Type of Station and by Provinces, 1945

Province or Territory	Generated by: Water Power '000 kwh.	Generated by: Thermal Engines '000 kwh.	Total '000 kwh.
Prince Edward Island	470	16,283	16,753
Nova Scotia	357,290	243,139	600,429
New Brunswick	472,790	125,909	598,699
Quebec	22,219,679	7,333	22,227,012
Ontario	10,733,989	2,753	10,736,742
Manitoba	2,280,969	2,820	2,283,789
Saskatchewan	nil	249,518	249,518
Alberta	305,047	261,698	566,745
British Columbia and Yukon	2,760,786	89,581	2,850,367
Totals	39,131,020	999,034	40,130,054

Source: Dominion Bureau of Statistics (by correspondence with the Dominion Statistician, August, 1947).

Since the source of Saskatchewan electricity is coal, the cost of transportation of coal from mines near the United States border in the south of the province or from Alberta to the various plants is of prime importance in the cost of generating electricity. Any increase in freight rates would necessarily increase that cost, imposing added operating costs on all industries using electric power, discouraging industrial expansion, and increasing the cost of living to every domestic consumer in the urban centres of the province.

Construction

Reference is made elsewhere in this Submission to the acute need for housing in Saskatchewan as the natural aftermath of long years of drought and depression. Economic recovery in the later years of the war coincided with acute shortages of lumber, other construction materials and labour with the result that construction in all fields lagged behind more industrialized provinces producing war goods (see Table XXVII).

TABLE XXVII

Value of Construction Contracts Awarded in Canada, by Provinces, 1943 to 1946

	Value of Construction Contracts			
Province	1943	1944	1945	1946
Prince Edward Island	$ 719,300	$ 657,900	$ 904,900	$ 650,200
Nova Scotia	7,535,500	9,157,200	14,681,900	13,489,400
New Brunswick	6,620,600	9,898,000	10,720,000	26,698,500
Quebec	61,816,700	89,884,800	121,943,400	226,809,500
Ontario	83,025,300	111,741,800	151,856,000	252,787,400
Manitoba	10,083,900	12,906,400	22,228,700	25,741,500
Saskatchewan	3,970,000	5,677,600	15,986,100	19,497,500
Alberta	18,529,300	19,501,900	32,677,800	38,971,900
British Columbia	13,803,300	32,536,200	38,033,900	58,709,200
Grand Totals	206,103,900	291,961,800	409,032,700	663,355,100

Source: Dominion Bureau of Statistics (by correspondence with the Dominion Statistician, August, 1947).

In view of the existing backlog a 30 per cent. increase in freight rates would have a relatively greater impact on Saskatchewan citizens than on those of most other provinces—particularly since, as is shown in the next section, a very large proportion of lumber and other building materials have to be imported from other provinces.

Forestry

The forest area of Saskatchewan is limited almost entirely to the northern portion of the province. The plains area is virtually devoid of forest cover with the result that all lumber and practically all other wood and wood products must be brought in from northern Saskatchewan, British Columbia or elsewhere. Even fuel for firewood is almost completely lacking on the prairie plains and in view of the severe winters cordwood and other firewood move in vast quantities and over comparatively long distances (in 1946 there were net imports of this item in excess of 10,000 tons) thereby providing substantial rail traffic. Other forest products used or produced in Saskatchewan and of great significance to the railways in terms of freight tonnage include lumber, box, crate and cooperage material, logs, posts, poles and piling. Table XXVIII giving loadings and unloadings of forest products at stations in Saskatchewan in 1946, indicates the heavy deficiency of lumber for building in Saskatchewan which can be overcome only by large imports—chiefly from British Columbia.

TABLE XXVIII

Forest Products Loaded and Unloaded at Stations in Saskatchewan, 1946

	Loaded (tons)	Unloaded (tons)
Logs, posts, poles, piling	31,483	42,281
Cordwood and other firewood	128,707	138,942
Ties	515	830
Pulpwood	142,026	635
Lumber, timber, box, crate and cooperage materials	111,783	215,260
Other forest products	9,844	16,593

SOURCE: *Summary of Monthly Railway Traffic Reports for year ended December 31, 1946.* (Ottawa, Dominion Bureau of Statistics, 1947).

Saskatchewan's principal forest product for export outside the province is pulpwood. Rail loadings and unloadings of pulpwood at stations in Saskatchewan in 1946 were 142,026 tons and 635 tons respectively—indicating an important net export movement.

The proposed increase in freight rates holds extremely serious implications for the pulpwood industry of this province. The price which any paper company can afford to pay for pulpwood f.o.b. its mill depends primarily on the sales price of newsprint. Transportation costs on Saskatchewan pulpwood moving to Manitoba, Eastern Canadian and U.S. mills are necessarily high because of the distances involved. Consequently, Saskatchewan pulpwood is already a high-cost product with the result that any increase in freight rates must inevitably be reflected in a sharp reduction in purchases of pulpwood from this province by the paper companies unless the producers absorb the increase.

Fishing

Commercial fishing is one of a number of relatively small industries carried on in the northern portion of the province which contribute in an important degree to diversification of the Saskatchewan economy, and provide a livelihood for a substantial section of the population of the north. The Provincial Government has actively fostered development of these fisheries through the promotion of markets and through improving the quality of the product thus bringing a measure of stability to this industry.

Great distances, however, separate the producing lakes from the main centres of consumption. It has been estimated that in recent years from 85 to 90 per cent. of the catch has been exported to the United States, heavy shipments being made to Chicago, Detroit, and New York.

In view of the fact that the greater portion of fresh fish from Saskatchewan is shipped express either by carload or in less-than-carload lots in refrigerated cars it is difficult to measure the increased burden the industry would be forced to assume should the present applications be granted. Frozen fish is largely shipped by freight under refrigerated conditions. The significance of shipping charges in marketing the Saskatchewan catch is seen when total value of production is compared to the total freight and express

charges. The Saskatchewan catch in 1945 (the latest year for which figures are available) was estimated by the Dominion Bureau of Statistics at 100,215 cwt. with a landed value of $881,558. The Fish Board, a division of the crown corporation known as the Saskatchewan Lake and Forest Products Corporation, estimates the total charges for shipping at $150,000 annually.

As previously indicated, it is impossible to estimate the total dollars-and-cents burden which would be added if the present applications were to be granted but any increase at all in fixed charges as high as those presently represented by transportation would have serious implications for the fishing industry and might make it impossible to maintain Saskatchewan's competitive position in the more distant markets. Should this occur production would undoubtedly be curtailed and some of the lakes closed for commercial fishing with consequent loss of earnings to those now depending on the industry for their livelihood.

C. DISTRIBUTION AND CONSUMPTION

Special mention is necessary in the case of Saskatchewan of the problems of distribution and consumption since practically all manufactured goods such as furniture, clothing, hardware, automobiles, motor trucks, tractors and farm implements must be brought into Saskatchewan by rail from Eastern Canada or other distant sources of supply and a substantial volume of foods including canned goods, fresh fruit and vegetables, sugar and salt must be brought in from Ontario, British Columbia, Manitoba or Alberta. Furthermore large quantities of heavy bulk freight, of which coal is probably the most significant, must be brought into the province by rail. The increased cost of goods to the consumer resulting from the proposed freight rate increase would not, however, be confined in most instances to the actual increase in freight since in the distributive trades, at both wholesale and retail levels, the application of percentage mark-ups, based on the laid-down cost of a commodity, is normal business practice, recognized by government agencies such as the Wartime Prices and Trade Board.

While it may be argued that the added cost to the consumer resulting from a mark-up on freight should not be attributed directly to the railways, it would be, nevertheless, an inescapable result of any increase in freight rates. The reasons for this are quite clear. Mark-up merely represents the cost of doing business—including a normal return on investment. It must cover rent of the business premises (or, alternatively, carrying charges, depreciation and taxes), fuel and power, salaries and wages, office supplies, the purchase, operation and maintenance of expendable items such as trucks and automobiles, insurance on plant, equipment and stock, provision for bad debts and declines in value of commodities handled, transportation charges on fuel and all other items entering into business costs in addition to stock, ancillary charges such as loading and unloading, demurrage, and many others. When costs are increased for any reason, investment in goods is increased with consequent increased interest and carrying charges and increased insurance charges on stock—or greater financial loss if damage should occur. Further, if the costs increased are freight charges, these would also be reflected immediately and directly in the higher cost of practically all physical equipment and supplies—such as

motor trucks for delivery purposes and coal for fuel, each representing a substantial proportion of operating costs—required for the carrying on of a retail or wholesale business.

Witnesses for the distributive trades, private and co-operative, were examined at length on this matter. In the first place there appeared to be at times complete confusion as to the purpose and import of regular wholesalers' and retailers' "mark-ups." Railway Counsel appeared to be under a misconception in at least one question put to the witness for the Saskatchewan Federated Co-operatives Limited, appearing at page 7210 of the official record:

> Q.—And therefore if, on your books, you are showing a 15 per cent. write-up on something and have collected it, or if you have collected it, then you distribute that back again to those members?

The answer of the witness corrected the implication thus:

> A.—Well, if you mean this, if we have a mark-up of 15 per cent. and our cost of doing business is 10, then we have a return of 5 per cent., that is right.

In other words the witness stated the obvious fact that "write-up" or "mark-up" represents the cost of doing business plus a reasonable return on capital investment.

Secondly, counsel for the Railway Association sought to suggest that distributors, wholesale and retail, might lighten the load of freight charges on their customers by absorbing in whole or in part the added burden of a freight rate increase, pointing to what appeared on the surface to be substantial percentage mark-ups on laid-down cost, including freight, on some items. As pointed out in evidence, the percentage mark-up varies depending on many factors such as rapidity of turn-over and perishability of the product.

The suggestion, also made, that to apply the standard rate of mark-up to the proposed increase in freight rates increases the margin of profit—"the more the freight, the greater the profit"—is completely erroneous and misleading. The idea that additional freight charges on items handled could be absorbed (or mark-up not applied on the increased cost) is equally invalid and its impossibility can easily be demonstrated by considering what the distributor would be asked to do under such circumstances. Should the distributor pay, in whole or in part, the increased freight on the commodities he handles, or should he refrain from applying the standard mark-up to it he would immediately reduce his operating margin by the amount of the freight increase so absorbed. Without any compensating increase in his total mark-up to provide the margin for taking care of it, he would in addition be required to pay increased freight charges on coal or oil for heating his premises, on materials used in maintaining them, on stationery and office supplies, on warehouse equipment, motor trucks, etc. The evidence of Bowman Brothers Limited[17] at the Regina Hearings expressed the situation in respect to transportation costs thus: "Freight and express charges are . . . a substantial part of the cost of our

[17] See *Brief Presented by Bowman Brothers to the Board of Transport Commissioners* (Saskatoon, June, 1947, mimeo.).

doing business in this province." In addition, to the extent that consumer purchases would be reduced by the higher cost of goods, the distributor's volume of business also would decline and impose a further burden on his ability to continue to perform his important function in the economy. It has been categorically stated by many responsible witnesses with intimate knowledge of their businesses, that the distributive trades could not absorb any further increase in the cost of doing business. It would have to be passed on to the consumer.

Railway counsel have endeavoured to minimize the burden of an increase in freight rates on consumers and producers by two devices (1) by emphasizing what appear to be small increases on individual items and (2) by suggesting that such increases spread over the useful life of the article represent an insignificant annual charge. These arguments may be answered very briefly.

The individual consumer necessarily buys his requirements in relatively small quantities. Even though the increased cost resulting from the proposed higher freight rates may appear small on a single article considered by itself, the aggregate increase on the many hundreds of individual purchases made by one consumer in the course of a year would represent a very material increase in his cost of living.

From the standpoint of the farmer increased freight rates would, if granted, be a threefold burden in terms of (a) reduced returns on products which must move by rail to outside markets, (b) increased costs of producer goods, machinery, fuel, building materials, etc., virtually all of which must be imported by rail, and (c) increased costs of consumer goods which he must purchase. The decreased return from the sale of produce and the increase in cost of producer and consumer goods would be substantial even when considered individually and particularly so in the cumulative total. It should be clearly understood that a heavy annual demand for durable goods exists and merely to spread the increased cost by a mathematical calculation over the life of an individual item gives a completely erroneous picture of the problem which faces those called upon to pay such increase since that is not the manner in which purchasers of durable goods are called up to pay for them.

The Briefs submitted by representative women's organizations at the Regina Hearings of the Board demonstrates the lively apprehension of consumers at the prospect of any increase in freight rates.[18] The representations of consumer organizations were reinforced by the factual evidence of wholesale and retail trade associations.[19] Thus

18 See *Submission by the Saskatchewan Homemakers' Clubs to the Board of Transport Commissioners* (Regina, June 1947, mimeo.) and *Brief Presented on Behalf of the Local Council of Women, Regina, Saskatchewan, to the Board of Transport Commissioners* (Regina, June, 1947, mimeo.).

19 See *Submission of the Wholesale Committee of the Regina Chamber of Commerce to the Board of Transport Commissioners, Regina Hearings* (Regina, June, 1947, mimeo.) *Brief Presented by the Saskatoon Wholesalers' Association to the Board of Transport Commissioners* (Regina, June, 1947, mimeo.); *Brief Submitted on Behalf of the Retail Merchants' Association of Canada Inc., Saskatchewan Branch* (Saskatoon, June, 1947, mimeo.); *Brief Presented by Saskatchewan Federated Co-operatives Limited to Board of Transport Commissioners for Canada, Regina Hearings* (Regina, June, 1947, mimeo.).

the wholesalers showed what the effect of the proposed freight rate increase would be on prices of fresh fruit, jam, tomatoes, salt and other items; the retailers discussed the increased burden on a wide variety of food items; the Homemakers dealt with increases on canned goods and fresh fruit while the Local Council of Women stressed the effect the proposed increase might be expected to have on nutrition and nutritional standards in Saskatchewan especially taking into consideration such essential foods as green vegetables and fresh fruits on which hauls are long and freight charges already high.

The effects of the proposed freight increase on furniture prices in Saskatchewan were also discussed by more than one group since long transportation hauls are involved —points of origin cited in the Briefs being Kitchener, Owen Sound and Stratford in Ontario and Lotbiniere and Montreal in Quebec.

Other items of everyday use singled out for special reference included clothing, boots and shoes, and bedding—the Homemakers pointing out the concentration of these industries in Ontario and Quebec and showing again that prairie families would be most severely affected.

The existing backlog and the effect of a thirty per cent. freight increase on automobiles and trucks was discussed by the Saskatchewan Motor Dealers. It was emphasized that motor vehicles are an essential part of a mechanized agricultural economy where rapid means of local transport is important in the relatively short production season. One result of increased freight costs—not without interest to the railways—would be that fewer vehicles would be bought and old vehicles would have to last longer.

There is great need for both new housing and for repairs and improvements to existing houses in Saskatchewan. The Homemakers' Brief comments that in a survey concluded in 1942 of farm houses in representative areas of Saskatchewan, 23.5 per cent. in the prairie area, 31.6 per cent. in the park area, and 56.5 per cent. in the pioneer area were in poor condition and goes on to quote *The Report of the Saskatchewan Reconstruction Council, 1944:*

> "At least 50 per cent. of the houses in poor condition need to be replaced by more adequate and suitably constructed dwellings and the remaining 50 per cent. need at least about one-half of this replacement cost to put them into proper condition."

And further as to facilities and conveniences:

> ". . . the 1941 census showed that only one farm house in ten had a furnace, one in eighteen electricity, and one in thirty a bathtub, while only one in a hundred had a flush toilet."

The Saskatoon Wholesalers in their Brief submitted at Regina declared that:

> "We believe it is generally conceded that construction costs in Saskatchewan exceed most, if not all, of the other areas in Canada."

A thirty per cent. increase in freight rates would cause further deterioration in Saskatchewan's relative position, since most of our lumber comes from British Columbia, and our cement may come from Fort Whyte, Manitoba, or Exshaw, Alberta. Conse-

quently, particular attention was paid to the proposed increase in freight rates and its probable effects on the construction and repair of both farm and urban houses in Saskatchewan. The increased freight charges on specific items such as flooring, shiplap, shingles, cement, nails, window glass, and steel were cited.

With respect to fuel for domestic heating, the Homemakers' Brief expressed concern that the costs of coal, wood and fuel oil would all be increased. On coal, Saskatchewan consumers would generally pay the maximum increase of 40 cents per ton.

Freight on farm implements is even now a heavy part of the total freight bill paid by the Saskatchewan farmer. Large quantities of machinery are normally purchased by Saskatchewan farmers annually, most machines coming from Eastern Canada. Such implements are heavy, and any increase in freight rates would add significantly to the already heavy freight bill of a mechanized prairie agriculture.

These examples indicate some of the items upon which a freight rate increase would be felt by the people of Saskatchewan. The position is rendered more serious by the existence of backlogs in many lines of which perhaps lumber and other building materials, automobiles, motor trucks, farm implements and hardware are the most significant. The Stock Growers in their Brief commented on the deficiencies of fencing materials, ranch equipment and machinery, etc.

It must be stressed again that the deficiencies in Saskatchewan are the cumulative result of years of drought and depression followed by years of wartime shortages. As a result heavy expenditures are required to maintain efficiency in production and to bring our standard of living more in line with that enjoyed in Eastern Canada.

It must also be remembered that freight charges are already high on most goods moving into Saskatchewan. Thus with a 30 per cent. increase in freight rates Wealthy apples coming from British Columbia would cost no more at the point of origin than before, but according to the Saskatoon Wholesalers' Brief the cost to the Saskatoon consumer would increase from $2.54 to $2.78 per box or by 9.4 per cent. Similarly, the cost of British Columbia onions to the Saskatoon consumer would increase from $6.14 to $6.45 per cwt. or by 5 per cent. A case of canned peaches weighing 37 pounds (24 twenty-ounce cans) from Hamilton to Regina would cost no more at Hamilton if the 30 per cent. increase were granted, but, as the Homemakers pointed out, at Regina the increase would amount to 15 cents per case or five-eighths of a cent per can—without allowance for increased wholesale and retail mark-ups.

Larger items provide more striking instances. An automobile would cost no more at Windsor if the 30 per cent. increase were granted but in Saskatchewan it would be increased by a minimum of $37.20 without any allowance for increased mark-ups.[20] Similarly, the freight on a medium sized combine-harvester moving from Brantford to Saskatoon and weighing 5,350 pounds would increase from $74.63 to $97.02. Lumber, it was pointed out in the Retailers' Brief, would be increased at Saskatoon by $3.00 to $5.00 per thousand feet.

20 See Brief *Saskatchewan Motor Dealers' Association to the Board of Transport Commissioners for Canada* (Regina, June, 1947, mimeo.).

A 30 per cent. increase would clearly carry a greater threat to the standard of living of the consumer in the main distributing centres of Saskatchewan such as Saskatoon or Regina than to the consumer in Eastern Canada or British Columbia where the product originated but it would carry an even greater threat to the standard of living of consumers outside the main distributing centres in Saskatchewan. For example, the cost to the Saskatoon consumer of Wealthy apples as cited by the Wholesalers, would increase from $2.54 to $2.78 or 9.4 per cent. but to the consumer at Watson, some 120 miles east of Saskatoon, the cost, after L.C.L. shipment, would rise from $2.77 to $3.08 or 11.2 per cent. A case of window glass, the Wholesalers pointed out, for which the dealer price at Saskatoon is now $19.60 would be increased by $1.00 to $20.60 or by 5.1 per cent. At Kindersley the dealer price which at present is $20.24 would be increased by $1.19 to $21.43 or by 5.9 per cent. Barbed wire, for which the dealer price at Saskatoon is at present $4.40, would be increased by 22 cents to $4.62, or by 5 per cent. At Kindersley, the dealer price would increase from $4.60 by 28 cents to $4.88, or by 6.1 per cent.

The relative extent to which Saskatchewan is dependent on manufactured goods from outside the province is illustrated by the figures on *net* imports of "manufactured and miscellaneous" products moving by rail into the "deficiency" provinces of Saskatchewan, Manitoba and Alberta. In 1946, Saskatchewan's net imports of such products amounted to 512,306 tons as compared with 292,962 tons for Manitoba and 147,119 tons for Alberta.[21] In all the major lines of manufactured goods Saskatchewan is a large net importer providing a large volume of highly lucrative long-haul traffic.

Enough evidence has been produced to prove that Saskatchewan consumers would be most seriously affected by a freight rate increase and that the greatest burden would be carried by farmers and others living outside the main distribution centres.

On the railways' own evidence the total revenue expected from a 30 per cent. increase in freight rates amounts to about $87 millions. It has been suggested that the levying of this toll, a few cents here and a few cents there, would constitute a relatively painless extraction. Admittedly the additional levy on each egg shipped from, say, Regina to Montreal, is small, but the cumulative effect upon the poultry-raisers is far from inconsequential while, taking the economy as a whole, the additional revenues which the railways hope to obtain would be equal to almost one per cent. of the total National Income at its highest point and equal to between three and four per cent. of the total National Income in such years as 1932 and 1933.

Any drain of the magnitude indicated by the railways could be regarded only as an enormous economic burden, particularly crippling to the Province of Saskatchewan where, for the reasons set out above, it would be felt most severely.

21 See *Summary of Monthly Railway Traffic Reports, 1946* (Ottawa, Dominion Bureau of Statistics, 1947).

D. CONCLUSION

To a greater extent than any other province Saskatchewan must market her natural products outside her own boundaries. Having regard to the location of those markets available to her, both domestic and export, the long rail haul involved in reaching such markets or placing her products in export position, the large volume of traffic and the effective rates applicable, Saskatchewan producers pay heavily for transportation services and the burden of any further increase in freight rates will fall with particular severity on this province. Not only will the absolute impact be great in terms of dollars and cents but the competitive position of her products on their present markets will be prejudiced to the advantage of producers closer to the centres of consumption or to export outlets. Thus, western producers will not only feel the burden of higher rates in terms of having to accept a return for their products reduced by the amount of the increase but they will, in all probability, be faced in some instances with the loss or partial loss of markets.

It is no answer to the agricultural industry of Saskatchewan to point out that export grain rates are unaffected by the present application. In the first place most grain farmers are also producers of livestock or poultry, dairy products or honey or some other product which would be subject to the rate increase proposed, and many ranchers and a not inconsiderable number of farmers, particularly in northern districts, are entirely dependent upon these products for their livelihood. While in the main, nature, as has been pointed out, determines the agricultural production of a region nevertheless the returns possible through directing efforts to the production of livestock, dairy and other products in the mixed farming category are also a determining factor in the farmer's production programme. Diversification in areas adapted to it is a wholly desirable development and one that has been and should be encouraged. Nevertheless the proposal now advanced by the railways as the solution to their alleged financial difficulties would inevitably retard and discourage the diversification of Saskatchewan agriculture.

Further, the fact that all producers are also consumers must be remembered. Regardless of the branch of production in which he, by choice or necessity, engages, the farmer would feel the full weight of high freight charges. At the same time the returns for his products, even though it be grain for export, would be reduced by reason of the higher cost of production directly attributable to higher freight rates on a wide variety of goods entering into production. The Submission of the Saskatchewan Associated Boards of Trade has summarized this position effectively:

> "Many of our Association's membership are big exporters of raw materials. Adding to the freight costs of our imports will increase their cost of production. They have to sell these raw materials on the markets of the world and naturally, they are in a better position to do this when they can sell at the lowest possible price. This can only be done when their own costs are kept as low as possible. An increase in freight rates would lessen their competitive ability to keep their products moving to the markets of the world."[22]

22 *Submission of the Saskatchewan Associated Boards of Trade to the Board of Transport Commissioners* (Regina, June, 1947, mimeo.)., p. 2.

Witnesses have been asked repeatedly whether in their opinion it is not best to raise freight rates in "good" times. It has been implied by the railways that periods of buoyancy in agricultural and business activity, involving high traffic volume and relatively high prices are the best times to increase rates on the transportation of goods.

The ability of the Province of Saskatchewan to bear such freight charges as are imposed can only be measured by conditions obtaining in her agricultural economy over a term of years. Net farm income figures are available only as far back as 1938 but records of gross cash income go back to 1926 and are shown in Table XXIX.

TABLE XXIX

Gross Cash Income* from the Sale of Farm Products in Saskatchewan, 1926 to 1946.

(In millions of dollars)

Year	Gross Income	Year	Gross Income	Year	Gross Income	Year	Gross Income
1926	$291.2	1931	$ 70.6	1936	$125.8	1941	$180.4
1927	271.5	1932	77.6	1937	84.3	1942	228.8
1928	321.5	1933	76.6	1938	93.4	1943	344.9
1929	245.1	1934	93.5	1939	159.7	1944	555.2
1930	122.4	1935	108.1	1940	157.9	1945	418.0
						1946	411.3

*Includes Dominion Government Payments.

SOURCE: Agricultural Division, Dominion Bureau of Statistics (from office records, October, 1947).

While these are gross figures, out of which farm operating costs must be provided, the variations from year to year are clearly indicated. It will be observed that gross cash income is subject to extremely wide fluctuations. The period for which comparable data are available covers 21 years and in that time income ranged from a low of $70.6 millions in 1931 to an all-time high of $555.2 millions in 1944. It is significant that while depressed incomes closely approximating the record low of 1931 continued throughout 1932, 1933 and 1934 and recurred again in 1937 and 1938, in no other year have incomes approached to within $100 millions of the peak reached in 1944. That year must be regarded as abnormal in every sense. For the twelve years 1930 to 1941 inclusive farm income remained depressed. It is only during the past three years that gross farm income in Saskatchewan has exceeded $400 millions annually and indeed in only two other years, namely 1928 and 1943, has it exceeded $300 millions. It will also be noted that farm income has receded since 1944 and in 1946 was $144 millions or 26 per cent. below the peak year. This, in itself, but more particularly in view of the history of farm income, indicates that present levels are unlikely to be maintained for any considerable period of time.

The United Farmers of Canada (Saskatchewan Section) in evidence at Regina[23] touched upon one point particularly pertinent to the farm income situation in relation to freight charges:

> The farm debt of Saskatchewan was estimated in excess of $600,000,000 but it is now estimated that more than two-thirds of that debt has been paid.
>
> Q.—Then, that is where the money went they had received during those years of 1942, 1943 and 1944, in paying debt?
>
> A.—Very largely, Mr. MacPherson. (p. 7528 of transcript of evidence.)

Fluctuations in income levels have been so wide and periods of low income so prolonged that when any improvement does come about, surplus spending must largely be directed toward cancellation of debt, repair of farm buildings and replacement of worn-out machinery, all of which needs accumulate during prolonged and recurring periods of little or no purchasing power.

The foregoing data reveal the fallacy—and the dangers—inherent in the suggestion that the present is an opportune time to make a general advance in freight rates. It would indeed be a strange theory of rate-making which advocates setting a freight rate structure, traditionally, historically and perhaps necessarily inelastic in its nature, on the basis of relatively favourable conditions temporarily obtaining in a highly fluctuating agricultural economy. No concept could be more deceptive, nor, if applied, more disastrous to the prairie agricultural economy or more disillusioning to the railways.

The fallacy of the proposition arises from the fact that the granting of an application to raise rates horizontally, even if such could be uniformly applied in practice, would permit the carriers to charge such increased rates not merely during the buoyant period, which, they suggest, enables shippers to bear them, but during any period of recession which may follow and until such time as an application for a general reduction is heard and disposed of. It is submitted that the damage which would be sustained by the national economy—and particularly by the economies of the provinces carrying the greatest burden of such increased charges—would far exceed that resulting from any decline in net revenue which the carriers might sustain as a result of the dismissal of the present application.

23 See also *Submission of United Farmers of Canada (Saskatchewan Section) to the Board of Transport Commissioners for Canada* (Saskatoon, June, 1947, mimeo.).

PART VIII

THE EFFECT OF AN INCREASE ON THIS PROVINCE WOULD PROBABLY BE MUCH MORE SEVERE THAN THE ABOVE ANALYSIS SUGGESTS.

It has been submitted above and it will be argued before the Board that the railways have not made out a case for an increase on the evidence presented even if fiscal need is to be the only consideration. It has been further submitted that the nature of the relief asked for, a horizontal increase, would be particularly disastrous to the economy of Saskatchewan. It is now contended that if an order is issued by the Board authorizing a horizontal increase it is likely to bear on this province with relatively greater severity than even a horizontal increase would suggest for the reason that it will not be applied equally to all parts of Canada. To be more specific it is contended that the new rates will probably be applied to a maximum degree in the west but not in Central Canada. The reasons for this fear may be stated in outline.

(a) It has been admitted in many decisions of the Board and definite evidence has been submitted in the course of the present hearings that railway freight rates are substantially higher in the west than in the east. One of the chief reasons given in justification of this differential has been that there is both water and truck competition in the east, the first of which does not exist in the west and the second to only a limited degree.

The above has been contended respecting the rate structures, east and west, in general. Moreover there has been a general tendency, in practice, for the railways to file competitive rates as the competition from trucks became more severe. This has occurred much more frequently in the east than in the west. The actual extent to which this has occurred should be found authoritatively by the Board.

(b) An order authorizing a 30 per cent. increase or any lesser percentage in rates would in theory apply to competitive rates as well as other rates. Of course such a percentage increase would increase the absolute differential between east and west and that in itself would be serious, but it is feared in this province that the increases would make the competition in Eastern Canada much more severe, so that in the result even the effective relative percentage increase in the west would be greater. This would increase the differential which admittedly exists between east and west, and increase it to an even greater degree than was envisaged in Part V above.

The result which is feared might occur in either of two ways: (i) By making the percentage increase initially applicable to all parts of Canada and then filing competitive rates in Eastern Canada which would substantially restore the present rates. This has been done before and there is no particular reason to suppose that it would not be done again if the railways believed that they could thereby take freight traffic away from their competitors. (ii) By applying a higher initial percentage increase in the west than in the east. It is submitted that throughout the hearings counsel for the railways have constantly treated the anticipated order as permissive rather than

absolute. Reference, for instance may be made to the remarks of Railway Counsel appearing at pages 3863-4 of the transcript of evidence. These remarks are typical of the railway attitude.

Under either alternative it is an obvious conclusion that the final incidence of a percentage increase might be very different in the west than in the east.

(c) As to what is likely to occur in practice in the event of an increase being authorized there may be some doubt. So far as water competition is concerned it may be conceded that the competition is likely to be less severe since wages and other expenses are likely to increase to an equivalent or even greater degree than in the case of the railways. It may perhaps be assumed that water competition is not likely to force the railways to lower their rates below any level that might be set.

In the case of truck competition, however, the situation may be quite different. Compared with Western Canada, competition by truck is very severe in Ontario and Quebec. Better highways, concentration of population, relatively greater importance of short haul movements where the truckers enjoy a great advantage over railways, a greater percentage of small lots of high-valued goods, less severe weather conditions, all these factors give truckers in the east a decided advantage over those in the west and make competition by truck much keener. Then there is the important consideration that in Saskatchewan trucking is so regulated as to prevent undercutting of railway rates while this is not true in Ontario and Quebec.

On the evidence it appears much less likely that the railways will be able to maintain increased rates against the trucks in competitive areas in the east than in the west. It also appears very unlikely that the railways will be able to maintain higher rates to any great extent against the trucks in Eastern Canada.

Before the Board, however, railway officials have claimed that truckers in Eastern Canada will be glad to follow the lead of the railways and increase their rates. This might very well occur to some extent since trucking costs must have increased enormously in recent years without compensation through increased rates. Nevertheless the fear expressed at the beginning of this Part has not been removed by these prophesies of railway officials.

That competition by truck may be very severe in Ontario even with railway freight rates at the present level is indicated in the following press release from Toronto dated September 19, 1947:

> "Regulate Trucking in Ontario — Provincial Government Urged By Shippers' Representative.
>
> "Decontrol of the trucking industry by the Wartime Prices and Trade Board on September 14th may very well have opened the door for the return of the discriminatory horsetrading which has plagued both motor transport operators and shippers for so long. This warning came from H. A. Mann, General Secretary of the Canadian Industrial Traffic League. The C.I.T.L. is the nationwide organization of industrial shippers and traffic managers.

"Mr. Mann pointed out that it would not be fair to lay all the blame for chaotic conditions at the feet of Ontario truckers who are making genuine efforts to eliminate unscrupulous practices from within their ranks. 'Fair trade practices cannot be based solely on a trust in the essential goodness of human nature,' he declared. 'They must be supported by an objective code which provides a system of rules for the guidance of both buyers and sellers of highway transportation.'

"The C.I.T.L. official went on to say that the Provincial Government has repeatedly been requested to establish a regulatory board for the trucking industry, but that so far no action had been taken. 'This is one of the rare instances where two groups on different sides agree on one common goal but have not got the official support needed to reach that goal.'

"The Canadian Industrial Traffic League, Mr. Mann said, had on record the complete draft of a regulatory code for the Ontario highway transportation industry. This draft was composed in collaboration with the Automotive Transportation Association of Ontario, the official organization of Ontario truckers, the Canadian Manufacturers' Association, The Toronto Board of Trade, and the Hamilton Chamber of Commerce. 'It is our hope that the Ontario Government will seize the opportunity afforded by the recent decontrol of highway transportation to give earnest consideration to the initiation of regulatory code, administred by a competent body, in order to end the highway rates chaos in this Province.'"

Assuming, however, that the railways are correct in their contention that trucking rates will increase with railway freight rates, this would seem to offer the most cogent proof obtainable that a very serious differential has existed as against the west. Why have the railways not moved before this to correct this injustice if the remedy is so simple?

(d) Some further observations on the matter of competitive rates may be made. Railway officials assume that such rates are justified if the railway does not operate at a loss when carrying goods under such tolls. The railways have offered no evidence to the effect that they are not operating at a loss under these rates. There is no evidence even that out-of-pocket expenses are met in any particular case. It is simply assumed in each case that such expenses are covered. It may well be that the goods are carried at a loss. If a profit (or even out-of-pocket expenses and overhead) is being made then certainly the profit under certain rates in the west must be tremendous.

It is submitted that no competitive rates should be permitted by the Board unless they are economically sound. There is no justification for making one part of Canada pay for the carriage of goods at a loss in other parts. The Board should scrutinize these rates closely and if it is not established clearly that the railway gets some return above costs, including maintenance and depreciation, the rate should not be allowed. Let the competing agency carry the goods if it can carry them economically.

It may be further pointed out that in areas where competitive rates are in effect—and these are not confined to Central Canada—the people do need railways. We suggest that the people of other areas, such as Saskatchewan, should not be penalized by excessive rates to make this possible. In this province the railways have virtually a transportation monopoly and we believe that the people of Canada should bear part of the burden rather than that the people living here should pay excessively high rates so that railways may operate on an uneconomic basis in other areas.

PART IX

NATIONAL SUBSIDIES: AN ALTERNATIVE TO AN INCREASE IN FREIGHT RATES SHOULD THE RAILWAYS BE UNABLE TO PROVIDE ADEQUATE SERVICES ON AVAILABLE REVENUES

In the earlier Parts of this Submission evidence has been produced to show that the Canadian Pacific Railway is not doing business at a loss. In fact the record indicates quite clearly that the Company is in a position to render efficient service and pay a reasonable return to investors out of current revenues. Additional evidence points unmistakably to the conclusion that in the event of falling net revenues the Railway has ample reserves with which to meet any temporary difficulty, these reserves having been accumulated from rates charged the people of Canada for transportation services. It is therefore contended that on any basis of fiscal need the application of the Railway Association is without merit.

The Province would be prepared to rest its case, if necessary, upon the argument summarized in the preceding paragraph and which has appeared in amplified form in the earlier Parts of this Brief. We feel, however, that precautions should be taken against any possible change in the financial fortunes of the railways in the measurable future which might justify a finding that additional revenues are necessary in order to guarantee adequate transportation services to the people of Canada. Accordingly, for the purpose of argument, it will now be assumed that the income of the Canadian Pacific Railway is insufficient to defray the costs of adequate transportation services and to provide a reasonable return to investors.

The Province of Saskatchewan submits that, under such circumstances, the Railway deficit thus hypothetically assumed should, in the national interest and in order that further regional injustices may be avoided, be financed through a national subsidy rather than by an increase in freight rates. It is further submitted that in the first instance the national subsidy should take the form of a conditional loan. If a railway crisis exists or develops it may be only temporary in nature. A conditional loan, repayable when the situation becomes normal, and with strict supervision during its currency, would seem to meet the circumstances in a reasonable way. It may be added that in the opinion of this Province two other developments which may exercise a direct influence on the financial position of the railways are overdue: (1) An extension of governmental regulation over competing agencies of transportation. (There are constitutional difficulties in the way of this extension, and in the past many of the provinces have neglected to take the action which they could legally take); (2) The appropriation of additional funds from the Dominion Treasury so that the Board of Transport Commissioners may be in a position to extend its administrative and research activities. The reasons which impel this Province to contend that any relief extended to the railways should take the form of a national subsidy are set out below.

(a) It is a principle of the legislation under which railway freight rates are fixed in Canada that these rates shall be just and reasonable and common sense supports this principle. Reference has been made in the earlier Parts of this Brief to evidence which establishes conclusively that rates in Saskatchewan and in the other Prairie Provinces are definitely higher than in Eastern Canada and that whatever the original justification for this state of affairs may have been it has long since disappeared. It follows therefore, that the rates presently in effect in Western Canada are unjust and unreasonable. To increase all freight rates horizontally by even a small percentage would be indefensible since it would mean that the rates in Western Canada would become even more unjust and more unreasonable. In contrast a national subsidy would distribute the burden equitably and tide the Canadian Pacific over a period in which the provision of efficient transportation and the interests of investors might be threatened.

(b) The matter may be looked at in another way. It may be argued that regional rates should bear some relationship to regional costs and in this connection evidence before the Board indicates that construction, maintenance and operating costs are lower in the prairie region than in Eastern Canada. Yet the rates are already higher. The obvious injustice of increasing this presently unjust differential by the granting of the present application would be avoided through the use of a national subsidy.

(c) During the hearings before the Board there has been a tendency on the part of the railways to explain and to excuse the high freight burden of the prairies as being merely the natural outcome of geographical situation. This, however, is not the whole story, for in the case of the Province of Saskatchewan, national policies have tended to force trade into artificial channels and have compelled the people of the Province to pay freight on Canadian railways running east and west.

As an instance of a national policy operating adversely to the interests of this Province reference may be made to the customs tariff. It has long been recognized that the customs tariff bears more heavily on Saskatchewan than upon any other province in the Dominion. The nature of our economy, essentially agricultural in character with comparatively little development of secondary industries, makes this inevitable. Further, the effect of the national protective tariff, whatever its merits or demerits from a national standpoint, is to force the people of Saskatchewan to use a large volume of manufactured goods transported over Canadian transcontinental railways. The cost is a heavy one. In the light of the historical facts it is submitted that if at any time the railways must have more money a national policy of transportation subsidies would be more appropriate and more just than an increase in freight rates.

(d) The enquiry conducted by the Royal Commission on Dominion-Provincial Relations, 1937-39, indicated that the weaker sections of the Canadian federation make for an unstable national economy. The Report of the Commission also indicated that the economy of Saskatchewan, characterized by intensive specialization in the production of an export staple and subject to two major uncontrollable factors—climatic hazards and world marketing conditions—is in a particularly vulnerable position.

It has already been stated that the burden of geography will not be urged as a reason for lower freight rates. Nor will the burden of a vulnerable provincial economy be so argued. Nevertheless, it is submitted that the problems of an unstable national

economy should not be further aggravated by the imposition of additional burdens on the weaker parts if there is any alternative. In the broad interest of national well-being the obvious alternative, if the Canadian Pacific Railway is facing financial paralysis, must take the form of a national subsidy.

(e) The railways of Canada were conceived as national undertakings and should be so regarded today. This is right and proper, for the railways occupy a position of strategic importance both in the normal economic life of the country and in periods of national crisis.

The fact that all the people of Canada need and use railways emphasizes a problem which only a national subsidy can remove without injustice to some areas. It has already been indicated that in some parts of Eastern Canada competitive rates are uneconomically low and the fear has also been expressed that if a horizontal increase is granted it will not be made effective by the railways in competitive areas.

Two great wars in the last generation have shown that the railways are an integral and indispensable part of our defence establishment. If in fact their revenues are insufficient to maintain them at the level of efficiency required by the national interest it seems only just that the burden should be borne by the whole nation rather than by those provinces already paying more than their share. If the Canadian Pacific Railway is in financial straits a national subsidy is a fair way of distributing the burden.

(f) It is now suggested for the consideration of the Board that there is a precedent for the payment of a national subsidy to the railways in place of an increase in freight rates in the subsidy at present being paid for the benefit of the Maritime Provinces. The subsidy now proposed would, in essence, be for the benefit of the competitive areas of Eastern Canada although it may be regarded as a national subsidy.

(g) While we are convinced that there is no present necessity for either an increase in freight rates or a subsidy, nevertheless we favour the subsidy alternative if action becomes necessary to preserve the Canadian Pacific Railway as a transportation system. In addition to the merit of avoiding obvious injustices, this device would offer two further advantages in (1) that the government subsidy would be subject to periodic review as to its continued necessity; (2) that government supervision would insure that the transportation system would be maintained at a high level of efficiency to meet national crises.

(h) In Part II above the attention of the Board was directed to the disruptive effects which might be anticipated from the institution under existing circumstances of any increase in freight rates. It was emphasized that the imposition of higher freight rates could only result in the short run in an aggravation of the current sterling-dollar crisis and in the longer run in a threat not only to the economic survival of the west but also to the welfare and integrity of Canada as a nation. A national subsidy would provide the required revenues without creating any danger on these scores. The Government could raise the funds necessary for such a subsidy either by taxation or by loans, depending upon whether at a particular time its monetary policy was directed towards the curbing of inflationary tendencies or towards warding off deflationary threats to the economic life of the country.